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1969
pt. 1

SOCIAL SECURITY AND WELFARE PROPOSALS

HEARINGS
BEFORE THE
COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES
NINETY-FIRST CONGRESS
FIRST SESSION
ON THE
SUBJECT OF SOCIAL SECURITY AND WELFARE
PROPOSALS

OCTOBER 15, 16, 21, 22, 23, 24, 27, 28, 30, 31, NOVEMBER 3, 4, 5,
6, 7, 10, 12, AND 13, 1969

Part 1 of 7
(October 15 and 16, 1969)

Printed for the use of the Committee on Ways and Means



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SOCIAL SECURITY AND WELFARE PROPOSALS

WEDNESDAY, OCTOBER 15, 1969

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D.C.

The committee met at 10 a.m., pursuant to notice, in the committee room, Longworth House Office Building, Hon. Wilbur D. Mills (chairman of the committee) presiding.

The CHAIRMAN. The committee will please be in order.

The Committee on Ways and Means today begins public hearings on the administration's proposals and other proposals to amend the Social Security Act, including not only the OASDI provisions, but also, of course, the welfare provisions and other medical provisions of the act. As will be recalled, we announced on September 18th that this hearing would begin not later than the 20th of October.

Without objection, I would like to include at this point in the record the committee announcement of that date, as well as the committee announcement of October 6th setting today as the opening day of the hearing and giving the details for requests to be heard.

Is there any objection?

Also, without objection, we will include in the record at this point the messages of the President relating to these matters, the implementing bills which were transmitted from the Administration, and the accompanying documents.

(The materials referred to follow:)

[Press release of Sept. 18, 1969]

CHAIRMAN WILBUR D. MILLS (D., ARK.), COMMITTEE ON WAYS AND MEANS,
ANNOUNCES FURTHER SCHEDULE OF THE COMMITTEE

Chairman Wilbur D. Mills (D., Ark.), Committee on Ways and Means, House of Representatives, today announced the forthcoming schedule of the Committee on Ways and Means for the next several weeks. The chairman stated that, following conclusion of the public hearings now in progress on the subject of airway user taxes and the establishment of an airway user trust fund, the committee would consider those matters in executive session beginning Monday, September 22. The chairman stated that also during the week of Monday, September 22, through Friday, September 26, after conclusion in executive session of the airway user proposals, the committee would review in executive session the interest rate on U.S. savings "E" and "H" bonds, and related interest rate subjects.

The chairman further advised that beginning Wednesday, October 1, the committee would begin public hearings on the administration proposals with respect to changes in the unemployment compensation laws, to be followed at the conclusion of those public hearings by consideration in executive session of that subject. Finally, the chairman stated that the committee, upon the conclusion of its executive sessions on unemployment compensation, would begin extensive public hearings on the subject of proposals to amend the Social Security Act, including proposals with respect to Social Security benefit increases, other changes in the Old-Age, Survivors', and Disability Insurance Program, proposals for changes

in those titles of the Social Security Act relating to welfare (including the President's welfare proposals and proposed changes in the titles of the act relating to grants-in-aid for aid to dependent children, aid to the needy aged, aid to the blind, aid to the permanently and totally disabled, and so forth), and any proposals relating to the medical provisions of the Social Security Act, including both Medicaid and Medicare. The specific date on which this series of hearings will begin (not later than October 20, 1969) will be announced at a later date and will depend upon the length of time it takes the committee to complete its hearings and executive sessions on unemployment compensation.

A press release will be issued today as to the details of the hearing on unemployment compensation which will begin on Wednesday, October 1. A press release relating to the date and the details of the hearing on Social Security and welfare matters will be issued at a later date. Interested witnesses prior to the release can, of course, request that they be advised as to the details when released.

[Press release of Oct. 6, 1969]

CHAIRMAN WILBUR D. MILLS (D., ARK.), COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES PUBLIC HEARINGS ON SOCIAL SECURITY AND WELFARE PROPOSALS TO BEGIN ON WEDNESDAY, OCTOBER 15, 1969

Chairman Wilbur D. Mills (D., Ark.), Committee on Ways and Means, U.S. House of Representatives, today announced that at 10:00 a.m. on Wednesday, October 15, 1969, the Committee on Ways and Means will begin extensive public hearings on the subject of proposals to amend the various titles of the Social Security Act. It will be recalled that Chairman Mills announced on September 18 that these hearings would begin not later than October 20, 1969.

The chairman stated that on Wednesday and Thursday, October 15 and 16, officials of the administration will be heard and that beginning on Wednesday, October 22, witnesses from the general public will be heard.

The hearings will include proposals by the administration and other pending proposals to amend (1) the old-age, survivors and disability insurance system; (2) proposals for changes in those titles of the Social Security Act relating to welfare, including not only the President's welfare proposals but other proposals relating to grants-in-aid for aid to dependent children, aid to the needy aged, aid to the blind, aid to the permanently and totally disabled, aid for crippled children, maternal and child health services; and (3) any proposals relating to the medical provisions of the Social Security Act, including both Medicaid and Medicare. As indicated, the hearing will be directed primarily to the proposals advanced by the administration, but will also include any other suggested changes to these titles of the Social Security Act.

Leadoff witnesses.—The leadoff witnesses will be officials of the Department of Health, Education, and Welfare and the Social Security Administration, and representatives of other interested Government departments. The administration witnesses will be followed by witnesses from the general public.

Cutoff date for requests to be heard.—The cutoff date for requests to be heard is *not later than the close of business Friday, October 17, 1969*. The requests should be submitted to John M. Martin, Jr., Chief Counsel, Committee on Ways and Means, 1102 Longworth House Office Building, Washington, D.C. 20515. Witnesses will be advised as promptly as possible after the cutoff date as to when they have been scheduled to appear.

Coordination of testimony.—In view of the limited time available to the committee to conduct this hearing and the broad scope of the hearing, it is requested that all persons and organizations with the same general interest designate one spokesman to represent them so as to conserve the time of the committee and the other witnesses, prevent repetition and assure that all aspects of the proposals can be given appropriate attention.

The committee will be pleased to receive from any interested organization or person a written statement for consideration for inclusion in the printed record of the hearing in lieu of a personal appearance. These statements will be given the same full consideration as though the statements had been presented in person. In such cases, a minimum of three (3) copies of the statement should be submitted *by Friday, November 14, 1969*.

Contents of requests to be heard.—In order to eliminate repetitious testimony and to properly schedule witnesses, it will be necessary for the request to be heard to specify:

- (1) The name, address, and capacity in which the witness will appear;
- (2) The list of persons or organizations the witness represents and in the case of associations or organizations, their total membership and where possible a membership list;
- (3) The amount of time the witness desires in which to present his *direct oral* testimony (*not* including answers to questions of Committee Members);
- (4) An indication of whether or not the witness is supporting or opposing any specific proposal or proposals on which he desires to testify; and
- (5) A topical outline or summary of the comments and recommendations which the witness proposes to make.

If the prospective witness has already in the past submitted a request to be heard on any of the subjects covered by this hearing, the request should be re-submitted furnishing the above information and otherwise conforming to the rules set forth for conducting this hearing.

Written statements.—In the case of those persons who are scheduled to appear and testify, it is requested that 75 copies of their written statement be submitted 24 hours in advance of their scheduled appearance, if possible. If it is desired, an additional 75 copies may be submitted for distribution to the press and the interested public on the witness' date of appearance.

Persons submitting a minimum of three written statements in lieu of a personal appearance may also, if they desire, submit an additional 75 copies of their statement for distribution to the Committee Members and the interested departmental and legislative staffs, pending the printing of the public hearings, which will include such statements along with the oral testimony of those persons who appear in person. An additional 75 copies may be submitted for the press and the interested public, if it is desired.

Format of all written statements.—Witnesses are requested to divide their statements into parts corresponding to the various subject matters involved in the hearing, to facilitate digesting the testimony and to facilitate indexing of the final published volumes. Also, to more usefully serve their purpose *all* written statements (those for the purpose of personal appearance and those submitted in lieu of a personal appearance) should contain:

- (1) A summary of comments and recommendations, and
- (2) Subject headings in the body of the main statement.

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

THE PRESIDENT'S PROPOSALS
FOR
WELFARE REFORM
AND
SOCIAL SECURITY AMENDMENTS
1969

INCLUDING DRAFT BILLS, SUMMARIES, AND
OTHER MATERIAL TRANSMITTED BY
THE DEPARTMENT OF
HEALTH, EDUCATION, AND WELFARE



OCTOBER 1969

NOTE: This document has been printed for information purposes only so as to make it generally available. It has not been considered by the Committee on Ways and Means.

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(III)

MESSAGE ON SOCIAL SECURITY

THE WHITE HOUSE

To the Congress of the United States:

This Nation must not break faith with those Americans who have a right to expect that Social Security payments will protect them and their families.

The impact of an inflation now in its fourth year has undermined the value of every Social Security check and requires that we once again increase the benefits to help those among the most severely victimized by the rising cost of living.

I request that the Congress remedy the real losses to those who now receive Social Security benefits by increasing payments by 10 percent.

Beyond that step to set right today's inequity, I propose that the Congress make certain once and for all that the retired, the disabled and the dependent never again bear the brunt of inflation. *The way to prevent future unfairness is to attach the benefit schedule to the cost of living.*

This will instill new security in Social Security. This will provide peace of mind to those concerned with their retirement years, and to their dependents.

By acting to raise benefits now to meet the rise in the cost of living, we keep faith with today's recipients. By acting to make future benefit raises automatic with rises in the cost of living, we remove questions about future years; we do much to remove this system from biennial politics; and we make fair treatment of beneficiaries a matter of certainty rather than a matter of hope.

In the 34 years since the Social Security program was first established, it has become a central part of life for a growing number of Americans. Today approximately 25 million people are receiving cash payments from this source. Three-quarters of these are older Americans; the Social Security check generally represents the greater part of total income. Millions of younger people receive benefits under the disability or survivor provisions of Social Security.

Almost all Americans have a stake in the soundness of the Social Security system. Some 92 million workers are contributing to Social Security this year. About 80 percent of Americans of working age are protected by disability insurance and 95 percent of children and mothers have survivorship insurance protection. Because the Social Security program is an essential part of life for so many Americans, we must continually reexamine the program and be prepared to make improvements.

Aiding in this administration's review and evaluation is the Advisory Council on Social Security which the Secretary of Health, Education, and Welfare appointed in May. For example, I will look to this Council for recommendations in regard to working women; changing work patterns and the increased contributions of working

women to the system may make present law unfair to them. The recommendations of this Council and of other advisers, both within the Government and outside of it, will be important to our planning. As I indicated in my message to the Congress on April 14, improvement in the Social Security program is a major objective of this administration.

There are certain changes in the Social Security program, however, for which the need is so clear that they should be made without awaiting the findings of the Advisory Council. The purpose of this message is to recommend such changes.

I propose an across-the-board increase of 10 percent in social security benefits, effective with checks mailed in April 1970, to make up for increases in the cost of living.

I propose that future benefits in the social security system be automatically adjusted to account for increases in the cost of living.

I propose an increase from \$1,680 to \$1,800 in the amount beneficiaries can earn annually without reduction of their benefits, effective January 1, 1971.

I propose to eliminate the \$1-for-\$1 reduction in benefits for income earned in excess of \$2,880 a year and replace by a \$1 reduction in benefits for every \$2 earned, which now applies at earnings levels between \$1,680 and \$2,880, also effective January 1, 1971.

I propose to increase the contribution and benefit base from \$7,800 to \$9,000, beginning in 1972, to strengthen the system, to help keep future benefits to the individual related to the growth of his wages, and to meet part of the cost of the improved program. From then on, the base will automatically be adjusted to reflect wage increases.

I propose a series of additional reforms to insure more equitable treatment for widows, recipients above age 72, veterans, for persons disabled in childhood and for the dependent parents of disabled and retired workers.

I emphasize that the suggested changes are only first steps, and that further recommendations will come from our review process.

The social security system needs adjustment now so it will better serve people receiving benefits today, and those corrections are recommended in this message. The system is also in need of long-range reform, to make it better serve those who contribute now for benefits in future years, and that will be the subject of later recommendations.

THE BENEFIT INCREASE

With the increase of 10 percent, the average family benefit for an aged couple, both receiving benefits, would rise from \$170 to \$188 a month. Further indication of the impact of a 10 percent increase on monthly benefits can be seen in the following table:

	Present minimum	New minimum	Present maximum	New maximum
Single person (a man retiring at age 65 in 1970).....	\$55. 00	\$61. 00	\$165. 00	\$181. 50
Married couple (husband retiring at age 65 in 1970).....	82. 50	91. 50	247. 50	272. 30

The proposed benefit increases will raise the income of more than 25 million persons who will be on the Social Security rolls in April 1970.

Total budget outlays for the first full calendar year in which the increase is effective will be approximately \$3 billion.

AUTOMATIC ADJUSTMENTS

Benefits will be adjusted automatically to reflect increases in the cost of living. The uncertainty of adjustment under present laws and the delay often encountered when the needs are already apparent is unnecessarily harsh to those who must depend on Social Security benefits to live.

Benefits that automatically increase with rising living costs can be funded without increasing Social Security tax rates so long as the amount of earnings subject to tax reflects the rising level of wages. Therefore, I propose that the wage base be automatically adjusted so that it corresponds to increases in earnings levels.

These automatic adjustments are interrelated and should be enacted as a package. Taken together they will depoliticize, to a certain extent, the Social Security system and give a greater stability to what has become a cornerstone of our society's social insurance system.

REFORMING THE SYSTEM

I propose a series of reforms in present Social Security law to achieve new standards of fairness. These would provide:

1. *An increase in benefits to a widow who begins receiving her benefit at age 65 or later.* The benefit would increase the current 82½ percent of her husband's benefit to a full 100 percent. This increased benefit to widows would fulfill a pledge I made a year ago. It would provide an average increase of \$17 a month to almost 3 million widows.

2. *Noncontributory earnings credits of about \$100 a month for military service from January 1957 to December 1967.* During that period, individuals in military service were covered under Social Security but credit was not then given for wages in kind—room and board, etc. A law passed in 1967 corrected this for the future, but the men who served from 1957 (when coverage began for servicemen) to 1967 should not be overlooked.

3. *Benefits for the aged parents of retired and disabled workers.* Under present law, benefits are payable only to the dependent parents of a worker who has died; we would extend this to parents of workers who are disabled or who retire.

4. *Child's insurance benefits for life if a child becomes permanently disabled before age 22.* Under present law, a person must have become disabled before age 18 to qualify for these benefits. The proposal would be consistent with the payment of child's benefit to age 22 so long as the child is in school.

5. *Benefits in full paid to persons over 72, regardless of the amount of his earnings in the year he attains that age.*—Under present law, he is bound by often confusing tests which may limit his exemption.

6. *A fairer means of determining benefits payable on a man's earnings record.*—At present, men who retire at age 62 must compute their average earnings through 3 years of no earnings up to age 65, thus lowering the retirement benefit excessively. Under this proposal, only the years up to age 62 would be counted, just as is now done for women, and 3 higher-earning years could be substituted for low-earning years.

CHANGES IN THE RETIREMENT TEST

A feature of the present social security law that has drawn much criticism is the so-called "retirement test," a provision which limits the amount that a beneficiary can earn and still receive full benefits. I have been much concerned about this provision, particularly about its effects on incentives to work. The present retirement test actually penalizes social security beneficiaries for doing additional work or taking a job at higher pay. This is wrong.

In my view, many older people should be encouraged to work. Not only are they provided with added income, but the country retains the benefit of their skills and wisdom; they, in turn, have the feeling of usefulness and participation which employment can provide.

This is why I am recommending changes in the retirement test. Raising the amount of money a person can earn in a year without affecting his social security payments—from the present \$1,680 to \$1,800—is an important first step. But under the approach used in the present retirement test, people who earned more than the exempt amount of \$1,680, plus \$1,200, would continue to have \$1 in social security benefits withheld for every \$1 they received in earnings. A necessary second step is to eliminate from present law the requirement that when earnings reach \$1,200 above the exempt amount, social security benefits will be reduced by a full dollar for every dollar of added earnings until all his benefits are withheld; in effect, we impose a tax of more than 100 percent on these earnings.

To avoid this, I would eliminate this \$1 reduction for each \$1 earned and replace it with the same \$1 reduction for each \$2 earned above \$3,000. This change will reduce a disincentive to increased employment that arises under the retirement test in its present form.

The amount a retired person can earn and still receive his benefits should also increase automatically with the earnings level. It is sound policy to keep the exempt amount related to changes in the general level of earnings.

These alterations in the retirement test would result in added benefit payments of some \$300 million in the first full calendar year. Approximately 1 million people would receive this money—some who are now receiving no benefits at all and some who now receive benefits but who would get more under this new arrangement. These suggestions are not by any means the solution to all the problems of the retirement test, however, and I am asking the advisory council on social security to give particular attention to this matter.

CONTRIBUTION AND BENEFIT BASE

The contribution and benefit base—the annual earnings on which social security contributions are paid and that can be counted toward social security benefits—has been increased several times since the social security program began. The further increase I am recommending—from its present level of \$7,800 to \$9,000 beginning January 1, 1972—will produce approximately the same relationship between the base and general earnings levels as that of the early 1950's. This is important since the goal of social security is the replacement, in part,

of lost earnings; if the base on which contributions and benefits are figured does not rise with earnings increases, then the benefits deteriorate. The future benefit increases that will result from the higher base I am recommending today would help to prevent such deterioration. These increases would, of course, be in addition to those which result from the 10-percent across-the-board increase in benefits that is intended to bring them into line with the cost of living.

FINANCING

I recommend an acceleration of the tax rate scheduled for hospital insurance to bring the hospital insurance trust fund into actuarial balance. I also propose to decelerate the rate schedule of the old-age, survivors, and disability insurance trust funds in current law. These funds, taken together, have a long-range surplus of income over outgo, which will meet much of the cost. The combined rate, known as the social security contribution, already scheduled by statute, will be decreased from 1971 through 1976. Thus, in 1971 the current scheduled rate of 5.2 percent to be paid by employees would become 5.1 percent, and in 1973 the current scheduled rate of 5.65 percent would become 5.1 percent. The actuarial integrity of the two funds will be maintained, and the ultimate tax rates will not be changed in the rate schedules which will be proposed.

The voluntary supplementary medical insurance (SMI) of title XVIII of the Social Security Act, often referred to as part B medicare coverage, is not adequately financed with the current \$4 premium. Our preliminary studies indicate that there will have to be a substantial increase in the premium. The Secretary of Health, Education, and Welfare will set the premium rate in December for the fiscal year beginning July 1970, as he is required to do by statute.

To meet the rising costs of health care in the United States, this administration will soon forward a health cost control proposal to the Congress. Other administrative measures are already being taken to hold down spiraling medical expenses.

In the coming months, this administration will give careful study to ways in which we can further improve the social security program. The program is an established and important American institution, a foundation on which millions are able to build a more comfortable life than would otherwise be possible—after their retirement or in the event of disability or death of the family earner.

The recommendations I propose today, which I urge the Congress to adopt, will move the cause of social security forward on a broad front.

We will bring benefit payments up to date.

We will make sure that benefit payments stay up to date, automatically tied to the cost of living.

We will begin making basic reforms in the system to remove inequities and bring a new standard of fairness in the treatment of all Americans in the system.

And we will lay the groundwork for further study and improvement of a system that has served the country well and must serve future generations more fairly and more responsively.

RICHARD NIXON.

THE WHITE HOUSE,
September 25, 1969.

LETTER OF TRANSMITTAL

THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE,

Washington, D.C., September 30, c 1969.

HON. JOHN W. McCORMACK,
*Speaker of the House of
Representatives,
Washington, D.C.*

HON. SPIRO T. AGNEW,
*President of the Senate,
Washington, D.C.*

DEAR MR. PRESIDENT:

DEAR MR. SPEAKER:

I am transmitting with this letter draft legislation to amend the social security program. Also enclosed are a summary and a section-by-section analysis of the draft bill. This draft is designed to carry out the recommendations made in the President's message on social security of September 25, 1969.

The proposed legislation calls for an across-the-board increase of 10 percent in social security payments, effective March 1970, to make up for increases in the cost of living since Congress last raised the benefits. The legislation also provides for subsequent automatic increases in benefits based upon increases in the cost of living. Other provisions would substantially revise the retirement test, increase the earnings base to \$9,000 per year and increase it automatically thereafter, increase the benefits payable to widows and dependent widowers who begin drawing benefits at age 65 or later from 82½ percent of the deceased worker's benefit to 100 percent of that amount, make aged dependent parents of retired and disabled workers eligible for benefits and liberalize the provisions for determining the insured status and benefit computation for men.

We urge that early and favorable consideration be given to the enactment of this bill, and we would appreciate your forwarding the proposed legislation to the appropriate committee.

The Bureau of the Budget advises the enactment of this bill would be in accord with the program of the President.

Sincerely,

ROBERT H. FINCH, *Secretary.*

SUMMARY OF THE PROPOSED SOCIAL SECURITY AMENDMENTS OF 1969

Benefit increase

The bill provides for a 10-percent across-the-board increase in cash social security benefits, effective March 1970 and payable in April 1970.

Under the proposal, an automatic increase in benefits is provided in the event of future increases in the cost of living. Whenever the Consumer Price Index prepared by the Department of Labor rises by at least 3 percent, benefits will be increased by that percent. These automatic increases would not be made more often than once a year.

Certain people age 72 and over would receive a 10-percent increase in the special amount that is paid them. These individuals are not now insured under the regular social security cash benefits program. The increase would be effective for March 1970.

The bill changes the present method of determining eligibility for benefits and benefit amounts based on a man's earnings record, making it similar to that now in use for women.

Average monthly earnings for a man—and it is on this average that the monthly benefits are based—are now determined over a period equal to the number of years up to age 65, while for women they are figured over a period equal to the number of years up to age 62. The result of this difference is generally that a man's retirement benefit amount is lower than that of a woman with exactly the same earnings record. Under the bill, this difference would be eliminated. As a result, the treatment of men and women workers under the benefit provisions would be the same, and the retirement benefits payable to men, the benefits payable to their wives, and the benefits payable to survivors of men who live beyond age 62 would be increased.

Widows and widowers

The bill provides benefits for a widow at age 65 equal to 100 percent of the amount her husband would have received at age 65, rather than 82½ percent as under present law. Benefits for widows aged 62–64 would be graded down according to the age of the widow at the time she first gets benefits; a widow coming on the rolls at age 62 would receive 82½ percent of the husband's benefit, as she does under present law. This provision would be effective with benefits for January 1971.

Contribution and benefit base

The bill provides for an increase in the contribution and benefit base (that is, the amount of annual earnings that may be counted for social security purposes) from the present \$7,800 per year to \$9,000 per year. This provision becomes effective on January 1, 1972.

The bill provides also for automatic adjustment of the contribution and benefit base to future increases in wage levels, beginning with 1974. The adjustments of the base could not be made more frequently than every second year.

Retirement test

Under this legislation, there would be four significant changes in the social security retirement test, liberalizing that test as follows: Under present law, full social security benefits are payable to a beneficiary whose earnings do not exceed \$1,680 for a year. If he has earnings of more than \$1,680, \$1 in benefits is withheld for each \$2 between \$1,680 and \$2,880, but there is a dollar-for-dollar reduction for earnings above \$2,880. (However, benefits are not withheld for a month if wages are not more than \$140 and substantial services are not rendered in self-employment.)

The proposal is to:

(a) Increase the annual exempt amount from \$1,680 to \$1,800 (and the monthly earnings test from \$140 to \$150);

(b) Provide for reduction in benefits of \$1 for each \$2 of *all* earnings in excess of the exempt amount of \$1,800;

(c) Provide for automatic upward adjustment of the annual exempt amount (and the monthly test) in relation to future increases in earnings levels;

(d) Provide that in the year a beneficiary reaches age 72 earnings beginning with the month he attains age 72 would be disregarded in computing the amount of annual earnings for retirement test purposes. The annual exempt amount and the \$1-for-\$2 adjustment would apply to his earnings in the year up to the month in which he attains age 72. (Under present law, earnings after the month a beneficiary attains age 72, but in the same year, must be included in determining whether any benefits are to be withheld for months before attainment of age 72.)

The changes in the retirement test would become effective generally on January 1, 1971.

Parent's benefits

The bill provides benefits for the dependent aged parents of retired or disabled workers. Under present law, benefits are provided only for the dependent parents of deceased workers. The benefit amounts for the parent of a living worker would be equal to 50 percent of the worker's primary insurance amount (like a husband's or wife's benefit under present law), actuarially reduced if taken at age 62-65. The benefit amount for parents of deceased workers would continue to be 82½ percent of the primary insurance amount, or 75 percent of that amount, depending on whether one or more parents were entitled to benefits.

Childhood disability benefits

The bill provides childhood disability benefits for a disabled son or daughter of an insured deceased, disabled, or retired worker if the son or daughter became totally disabled after age 18 and before reaching age 22. Under present law, a person must have become totally disabled before age 18 to qualify for childhood disability benefits.

Military service credits

The bill provides noncontributory wage credits (\$100 for each month of military service) for individuals who served on active duty in the military services from January 1957 through December 1967. These credits, reflecting wages-in-kind received by servicemen, would be in

addition to credits for service basic pay, which has been subject to contributory coverage since January 1, 1957. Present law provides similar \$100-a-month noncontributory credits for military service after 1967, and \$160-a-month noncontributory credits for service from September 1940 through December 1956.

Financing

Under the most recent of the periodic actuarial reevaluations of the cash benefits part of the social security program, income over the long-range future exceeds long-range outgo by 1.16 percent of taxable payroll. The excess of long-range income over outgo as shown in the last preceding evaluation was 0.53 percent of taxable payroll. The larger excess shown in the most recent estimates results from taking into account 1969 (as against 1968) earnings levels, the higher interest rates now being earned by the trust funds, and increased labor-force participation of both men and women. Preliminary results of the latest reevaluation of the hospital insurance program indicate that the long-range income of the program will be less than long-range outgo by 0.77 percent of taxable payroll.

A large part of the cost of the proposed improvement in the cash benefits program will be covered by the long-range excess of income over outgo in that part of the social security program. The proposed increase in the contribution and benefit base to \$9,000 will also help to meet part of the cost of the improvements, since income from the increase in the base will exceed the cost of the additional benefits that will be paid on earnings above the present \$7,800 ceiling.

Automatic increases in the contribution and benefit base in line with increases in wage levels will provide additional income sufficient to meet fully the cost of the additional benefit payments that will result from automatic adjustment of benefits in line with increases in the cost of living and from automatic adjustment of the retirement test. In summary, the cash benefits part of the social security program, with the recommended improvements, will be adequately financed; and, in fact, the rate increases scheduled in present law for the cash benefits part of the program can be put into effect considerably later than scheduled in present law.

The contribution rate for cash benefits, now scheduled to rise to 5 percent each for employees and employers in 1973 and thereafter, would not reach 5 percent under the bill until 1987. The delay in the scheduled increases in the contribution rates for cash benefits will prevent unnecessary, large-scale increases in the cash benefits trust funds.

The contribution rates for hospital insurance would rise under the bill from 0.6 percent each for employees and employers to 0.9 percent each in 1971 and thereafter, as against rising to the 0.9 level in 1987 and thereafter as under present law. The revision in the contribution rates scheduled for hospital insurance and the increases in the contribution and benefit base to \$9,000 in 1972, with automatic adjustment thereafter, will leave the hospital insurance trust fund with an actuarial balance of 0.06 percent of payroll under the bill, as against a minus balance of 0.77 percent under present law.

Under the proposed revisions in the contribution rate schedules, the combined rates for cash benefits and hospital insurance will be lower than in present law for 1971 through 1976 and will be the same as in present law for 1977 and thereafter.

The contribution rate schedules under present law and the bill are shown in the following table.

CONTRIBUTION RATES FOR EMPLOYEES AND EMPLOYERS, EACH, UNDER PRESENT LAW AND UNDER PROPOSAL
[In percent]

	Present law			Proposal		
	Cash benefits	Hospital insurance	Total	Cash benefits	Hospital insurance	Total
Year:						
1970.....	4.20	0.60	4.80	4.2	0.60	4.80
1971-72.....	4.60	.60	5.20	4.2	.90	5.10
1973-74.....	5.00	.65	5.65	4.2	.90	5.10
1975.....	5.00	.65	5.65	4.6	.90	5.50
1976.....	5.00	.70	5.70	4.6	.90	5.50
1977-79.....	5.00	.70	5.70	4.8	.90	5.70
1980-86.....	5.00	.80	5.80	4.9	.90	5.80
1987 and after.....	5.00	.90	5.90	5.0	.90	5.90

CONTRIBUTION RATES FOR THE SELF-EMPLOYED UNDER PRESENT LAW AND UNDER PROPOSAL

[In percent]

	Present law			Proposal		
	Cash benefits	Hospital insurance	Total	Cash benefits	Hospital insurance	Total
Year:						
1970.....	6.30	0.60	6.90	6.30	0.60	6.90
1971-72.....	6.90	.60	7.50	6.30	.90	7.20
1973-74.....	7.00	.65	7.65	6.30	.90	7.20
1975.....	7.00	.65	7.65	6.90	.90	7.80
1976.....	7.00	.70	7.70	6.90	.90	7.80
1977-79.....	7.00	.70	7.70	7.00	.90	7.90
1980-86.....	7.00	.80	7.80	7.00	.90	7.90
1987 and after.....	7.00	.90	7.90	7.00	.90	7.90

SECTION-BY-SECTION ANALYSIS OF THE PROPOSED SOCIAL SECURITY AMENDMENTS OF 1969

Section 1. Short title

This section specifies that the bill may be cited as the "Social Security Amendments of 1969".

Section 2. Increase in old-age, survivors, and disability insurance benefits

This section provides a general benefit increase for current and future beneficiaries. Benefits are increased across the board by 10 percent, with a minimum benefit of \$61 instead of the present \$55. The maximum retirement benefit for a worker alone is increased from the present \$218 to \$250. Maximum family benefits payable for the future will range from \$91.50 to \$480 a month compared with the present range of \$82.50 to \$434.40. The general benefit increase becomes effective with benefits for March 1970 payable in April.

Section 3. Increase in special payments for certain people age 72 and over

Under this section there will be a 10-percent increase in the amounts of benefits payable to certain people age 72 and over who either have not worked at all under social security or have not worked in covered employment long enough to meet the regular insured status requirements. The increased benefits will be \$44 for an individual and \$66 for a couple, instead of \$40 and \$60 as under present law. This increase becomes effective with benefits for March 1970.

Section 4. Automatic adjustment of benefits

This section provides for automatic cost-of-living increases in social security cash benefits. The automatic increases in benefits would not be made more often than once a year.

The calculation of the increase in the cost of living would be based on the Consumer Price Index prepared by the Department of Labor. Under the first such calculation, the monthly average of the Consumer Price Index for the third calendar quarter of 1970 would be compared with the monthly average of the Consumer Price Index for the third calendar quarter of 1969. If the monthly average of the Consumer Price Index for the third calendar quarter of 1970 exceeded the monthly average of the Consumer Price Index for the third calendar quarter of 1969 by at least 3 percent, monthly benefits for people who are then and who later become entitled to benefits would be increased, effective for benefits paid for January 1971, by the percentage increase (rounded to the nearest one-tenth of 1 percent) by which the Consumer Price Index had increased. (Lump-sum death payments would be increased for deaths occurring after November 1971.)

A similar calculation would be made in each subsequent calendar year, with the monthly average of the Consumer Price Index for the third quarter of that year being compared with the average of the

Consumer Price Index for the third quarter of the most recent year that necessitated a cost-of-living increase.

The cost-of-living increases provided by this section would apply not only to individual benefits but also to the maximum family benefit amounts.

Section 5. Liberalization of the earnings test for retirement purposes

This section makes four changes in the social security retirement test. Under present law, full social security benefits are payable to a beneficiary under age 72 whose earnings do not exceed \$1,680 for a year. If he has earnings of more than \$1,680, \$1 in benefits is withheld for each \$2 between \$1,680 and \$2,880, but there is a dollar-for-dollar reduction for earnings above \$2,880. (However, benefits are not withheld for a month if in that month the beneficiary's wages are not more than \$140 or substantial services are not rendered in self-employment.) The bill will:

(a) Increase the annual exempt amount of earnings from \$1,680 to \$1,800 (and the monthly earnings test from \$140 to \$150);

(b) Provide for reduction in benefits of \$1 for each \$2 of all earnings in excess of the exempt amount of \$1,800;

(c) Provide for automatic upward adjustment of the annual exempt amount (and the monthly earnings test) in relation to future increases in average earnings levels;

(d) Provide that in the year a beneficiary reaches age 72 earnings beginning with the month he attains age 72 would not be considered in computing the amount of annual earnings exempt for retirement test purposes. The annual exempt amount and the \$1 for \$2 adjustment would apply to his earnings in the year up to the month in which he attains age 72. (Under present law, earnings after the month a beneficiary attains age 72, but in the same year, must be included in determining whether any of an individual's benefits are to be withheld for months in the year before he attained age 72.)

The changes in the retirement test would become effective generally on January 1, 1971.

Section 6. Increase in earnings counted for benefit and contribution purposes

This section provides for an increase in the contribution and benefit base—the maximum amount of annual earnings that are subject to social security contributions and creditable toward social security benefits. The base would be increased from the present \$7,800 to \$9,000, effective on January 1, 1972.

Section 7. Automatic adjustment of the contribution and benefit base

This section provides for automatic adjustments of the contribution and benefit base to future increases in average wage levels beginning with 1974. On or before October 1, 1972, and of each even-numbered year thereafter, the Secretary of Health, Education, and Welfare will determine and publish in the Federal Register the contribution and benefit base for the 2 calendar years beginning January 1 of the next even-numbered year. The base for a particular year is to be the product of \$9,000 and the ratio of (A) the average covered wages of all persons for whom taxable wages were reported for the first calendar quarter

of the year in which the determination is being made to (B) the average covered wages of all persons for whom taxable wages were reported for the first calendar quarter of 1971. That product, if not a multiple of \$600, is to be rounded to the nearest multiple of \$600. If the base so determined is smaller than the base already in effect, the base that is in effect will continue in effect for 2 more years. The section also provides formula for determining benefit amounts and maximum family benefits for average monthly earnings above \$750 (\$9,000 a year).

Section 8. Changes in contribution rate

Under this section, the contribution rates for both the cash benefits and the hospital insurance parts of the program will be revised. The contribution rate schedules under present law and under the bill are shown in the following tables.

CONTRIBUTION RATES FOR EMPLOYEES AND EMPLOYERS, EACH, UNDER PRESENT LAW
AND UNDER THE BILL

[In percent]

	Present law			Proposal		
	Cash benefits	Hospital insurance	Total	Cash benefits	Hospital insurance	Total
Year:						
1970.....	4.20	0.60	4.80	4.20	0.60	4.80
1971-72.....	4.60	.60	5.20	4.20	.90	5.10
1973-74.....	5.00	.65	5.65	4.20	.90	5.10
1975.....	5.00	.65	5.65	4.60	.90	5.50
1976.....	5.00	.70	5.70	4.60	.90	5.50
1977-79.....	5.00	.70	5.70	4.80	.90	5.70
1980-86.....	5.00	.80	5.80	4.90	.90	5.80
1987 and after.....	5.00	.90	5.90	5.00	.90	5.90

CONTRIBUTION RATES FOR THE SELF-EMPLOYED UNDER PRESENT LAW AND UNDER THE BILL

[In percent]

	Present law			Proposal		
	Cash benefits	Hospital insurance	Total	Cash benefits	Hospital insurance	Total
Year:						
1970.....	6.30	0.60	6.90	6.30	0.60	6.90
1971-72.....	6.90	.60	7.50	6.30	.90	7.20
1973-74.....	7.00	.65	7.65	6.30	.90	7.20
1975.....	7.00	.65	7.65	6.90	.90	7.80
1976.....	7.00	.70	7.70	6.90	.90	7.80
1977-79.....	7.00	.70	7.70	7.00	.90	7.90
1980-86.....	7.00	.80	7.80	7.00	.90	7.90
1987 and after.....	7.00	.90	7.90	7.00	.90	7.90

Section 9. Age 62 computation point for men

This section provides that the ending point of the period that is used to determine insured status for men and the ending point of the period that is used to determine the number of years over which a man's average monthly earnings must be calculated, will be the beginning of the year in which he reaches age 62, instead of age 65 as is provided under present law. The ending point for men would thus be the same as it is for women under present law. One effect of the proposed change is that a man's average monthly earnings in retirement cases could be figured over 3 fewer years than they are under present

law, resulting in most cases in higher average monthly earnings for him and thus higher benefits for him and his family.

The change is effective with benefits for January 1971, and will be applicable both to people already on the benefit rolls and to those who will come on in the future.

Section 10. Entitlement to child's insurance benefits based on disability which began between 18 and 22

This section provides childhood disability benefits for a son or daughter of an insured deceased, disabled, or retired worker if the son or daughter became totally disabled after age 18 and before reaching age 22, and continues to be totally disabled. Under present law, a person must have been totally disabled since before age 18 to qualify for childhood disability benefits. This change would be applicable to monthly benefits for months after December 1970.

Section 11. Disability insurance trust fund

This section would increase the percentage of taxable wages appropriated to the disability insurance trust fund—now 0.95 of 1 percent of payroll—to 1.05 percent, and would increase the percentage of income from self-employment appropriated to the disability insurance trust fund—now 0.7125 of 1 percent—to 0.7875 of 1 percent, effective for 1970.

Section 12. Wage credits for members of the uniformed services

This section provides noncontributory earnings credits of \$300 for each calendar quarter of military service after December 1956 and before January 1968. These credits, designed to give social security credit for wages in kind received by servicemen, would supplement credit for military service basic pay, which has been subject to contributory social security coverage since January 1, 1957. Present law provides similar noncontributory wage credits for military service after 1967 and \$160-a-month noncontributory wage credits for service from September 1940 through December 1956. The new wage credits, like the previously provided noncontributory wage credits, would be financed from general revenues. The new credits would be used in computing monthly benefits for months after December 1970 and lump-sum death payments in the case of deaths after 1970.

Section 13. Parent's insurance benefits

This section would provide for the payment of benefits to aged dependent parents of retired and disabled workers, effective for January 1971. Such benefits are now provided for dependent parents of deceased workers. The benefits for the dependent parent of a retired or disabled individual would be equal to 50 percent of that individual's benefit, except that it would be actuarially reduced if taken before age 65. The benefit for a parent of a deceased worker would continue as in present law to be 82½ percent of the worker's benefit if there is one parent and 75 percent each if there are two.

Section 14. Increase in widow's insurance benefits

This section increases benefits for widows, and widowers, who came on the benefit rolls, and those who come on in the future, after age 62. For a widow becoming entitled to benefits at or after age 65, the benefit would be equal to 100 percent of the amount of her husband's benefit

at age 65, rather than $82\frac{1}{2}$ percent as under present law. For widows coming on the rolls between age 62 and 65, benefit amounts would range from the $82\frac{1}{2}$ percent payable at age 62 under present law and under the bill to the 100 percent payable at age 65 under the bill. For example, the benefit amount for a widow becoming entitled to widow's benefits at age 63 would be $88\frac{1}{3}$ percent of her husband's age 65 benefit; for a widow becoming entitled at age 64, the amount would be equal to $94\frac{1}{6}$ percent of her husband's benefit. The increase in widow's benefits would become effective with benefits payable for January 1971.

PROPOSED SOCIAL SECURITY AMENDMENTS OF 1969

A BILL To amend the Social Security Act to provide an increase in benefits under the old-age, survivors, and disability insurance program, provide for automatic benefit increases thereafter in the event of future increases in the cost of living, provide for future automatic increases in the earnings and contribution base, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Social Security Amendments of 1969".

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INCREASE IN OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE BENEFITS

SEC. 2. (a) Section 215(a) of the Social Security Act is amended by striking out the table and inserting in lieu thereof the following:

TABLE FOR DETERMINING PRIMARY INSURANCE AMOUNT AND MAXIMUM FAMILY BENEFITS

I		II	III		IV	V
(Primary insurance benefit under 1939 act, as modified)		(Primary insurance amount under 1967 act)	(Average monthly wage)		(Primary insurance amount)	(Maximum family benefits)
If an individual's primary insurance benefit (as determined under subsec. (d)) is—		Or his primary insurance amount (as determined under subsec. (c)) is—	Or his average monthly wage (as determined under subsec. (b)) is—		The amount referred to in the preceding paragraphs of this subsection shall be—	And the maximum amount of benefits payable (as provided in sec. 203(a)) on the basis of his wages and self-employment income shall be—
At least—	But not more than—		At least—	But not more than—		
-----	\$16. 20	\$55.40 or less	-----		\$76	\$91. 50
\$16.21-----	16. 84	56. 50	\$77	78	62. 20	93. 30
\$16.85-----	17. 60	57. 70	79	80	63. 50	95. 30
\$17.61-----	18. 40	58. 80	81	81	64. 70	97. 10
\$18.41-----	19. 24	59. 90	82	83	65. 90	98. 90
\$19.25-----	20. 00	61. 10	84	85	67. 30	101. 00
\$20.01-----	20. 64	62. 20	86	87	68. 50	102. 80
\$20.65-----	21. 28	63. 30	88	89	69. 70	104. 60
\$21.29-----	21. 88	64. 50	90	90	71. 00	106. 50
\$21.89-----	22. 28	65. 60	91	92	72. 20	108. 30
\$22.29-----	22. 68	66. 70	93	94	73. 40	110. 10
\$22.69-----	23. 08	67. 80	95	96	74. 60	111. 90
\$23.09-----	23. 44	69. 00	97	97	75. 90	113. 90
\$23.45-----	23. 76	70. 20	98	99	77. 30	116. 00

TABLE FOR DETERMINING PRIMARY INSURANCE AMOUNT AND MAXIMUM FAMILY BENEFITS—Continued

I		II	III		IV	V
(Primary insurance benefit under 1939 act, as modified)		(Primary insurance amount under 1967 act)	(Average monthly wage)		(Primary insurance amount)	(Maximum family benefits)
If an individual's primary insurance benefit (as determined under subsec. (d)) is—		Or his primary insurance amount (as determined under subsec. (c)) is—	Or his average monthly wage (as determined under subsec. (b)) is—		The amount referred to in the preceding paragraphs of this subsection shall be—	And the maximum amount of benefits payable (as provided in sec. 203(a)) on the basis of his wages and self-employment income shall be—
At least—	But not more than—		At least—	But not more than—		
\$23.77	24.20	71.50	100	101	78.70	118.10
\$24.21	24.60	72.60	102	102	79.90	119.90
\$25.61	25.00	73.80	103	104	81.20	121.80
\$25.01	25.48	75.10	105	106	82.70	124.10
\$25.49	25.92	76.30	107	107	84.00	126.00
\$25.93	26.40	77.50	108	109	85.30	128.00
\$26.41	26.94	78.70	110	113	86.60	129.90
\$26.95	27.46	79.90	114	118	87.90	131.90
\$27.47	28.00	81.10	119	122	89.30	134.00
\$28.01	28.68	82.30	123	127	90.60	135.90
\$28.69	29.25	83.60	128	132	92.00	138.00
\$29.26	29.68	84.70	133	136	93.20	139.80
\$29.69	30.36	85.90	137	141	94.50	141.80
\$30.37	30.92	87.20	142	146	96.00	144.00
\$30.93	31.36	88.40	147	150	97.30	146.00
\$31.37	32.00	89.50	151	155	98.50	147.80
\$32.01	32.60	90.80	156	160	99.90	149.90
\$32.61	33.20	92.00	161	164	101.20	151.80
\$33.21	33.88	93.20	165	169	102.60	153.90
\$33.89	34.50	94.40	170	174	103.90	155.90
\$34.51	35.00	95.60	175	178	105.20	157.80
\$35.01	35.80	96.80	179	183	106.50	159.80
\$35.81	36.40	98.00	184	188	107.80	161.70
\$36.41	37.08	99.30	189	193	109.30	164.90
\$37.09	37.60	100.50	194	197	110.60	165.90
\$37.61	38.20	101.60	198	202	111.80	167.70
\$38.21	39.12	102.90	203	207	113.20	169.80
\$39.13	39.68	104.10	208	211	114.60	171.90
\$39.69	40.33	105.20	212	216	115.80	173.70
\$40.34	41.12	106.50	217	221	117.20	176.80
\$41.13	41.76	107.70	222	225	118.50	180.00
\$41.77	42.44	108.90	226	230	119.80	184.00
\$42.45	43.20	110.10	231	235	121.20	188.00
\$43.21	43.76	111.40	236	239	122.60	191.20
\$43.77	44.44	112.60	240	244	123.90	195.20
\$44.45	44.88	113.70	245	249	125.10	199.20
\$44.89	45.60	115.00	250	253	126.50	202.40
		116.20	254	258	127.90	206.40
		117.30	259	263	129.10	210.40
		118.60	264	267	130.50	213.60
		119.80	268	272	131.80	217.60
		121.00	273	277	133.10	221.60
		122.20	278	281	134.50	224.80
		123.40	282	286	135.80	228.80
		124.70	287	291	137.20	232.80
		125.80	292	295	138.40	236.00
		127.10	296	300	139.90	240.00
		128.30	301	305	141.20	244.00
		129.40	306	309	142.40	247.20
		130.70	310	314	143.80	251.20
		131.90	315	319	145.10	255.20
		133.00	320	323	146.30	258.40
		134.30	324	328	147.80	262.40
		135.50	329	333	149.10	266.40
		136.80	334	337	150.50	269.60
		137.90	338	342	151.70	273.60
		139.10	343	347	153.10	277.60
		140.40	348	351	154.50	280.80
		141.50	352	356	155.70	284.80
		142.80	357	361	157.10	288.80
		144.00	362	365	158.40	292.00
		145.10	366	370	159.70	296.00
		146.40	371	375	161.10	300.00
		147.60	376	379	162.40	303.20
		148.90	380	384	163.80	307.20
		150.00	385	389	165.00	311.20
		151.20	390	393	166.40	314.40
		152.50	394	398	167.80	318.40
		153.60	399	403	169.00	322.40
		154.90	404	407	170.40	325.60

TABLE FOR DETERMINING PRIMARY INSURANCE AMOUNT AND MAXIMUM FAMILY BENEFITS—Continued

I	II	III	IV	V	
(Primary insurance benefit under 1939 act, as modified)	(Primary insurance amount under 1967 act)	(Average monthly wage)	(Primary insurance amount)	(Maximum family benefits)	
If an individual's primary insurance benefit (as determined under subsec. (d)) is—	Or his primary insurance amount (as determined under subsec. (c)) is—	Or his average monthly wage (as determined under subsec. (b)) is—	The amount referred to in the preceding paragraphs of this subsection shall be—	And the maximum amount of benefits payable (as provided in sec. 203(a)) on the basis of his wages and self-employment income shall be—	
At least— But not more than—		At least— But not more than—			
	156.00	408	412	171.60	329.60
	157.10	413	417	172.90	333.60
	158.20	418	421	174.10	336.80
	159.40	422	426	175.40	340.80
	160.50	427	431	176.60	344.80
	161.60	432	436	177.80	348.80
	162.80	437	440	179.10	352.00
	163.90	441	445	180.30	356.00
	165.00	446	450	181.50	360.00
	166.20	451	454	182.90	361.60
	167.30	455	459	184.10	363.60
	168.40	460	464	185.30	365.60
	169.50	465	468	186.50	367.20
	170.70	469	473	187.80	369.20
	171.80	474	478	189.00	371.20
	172.90	479	482	190.20	372.80
	174.10	483	487	191.60	374.80
	175.20	488	492	192.80	376.80
	176.30	493	496	194.00	378.40
	177.50	497	501	195.30	380.40
	178.60	502	506	196.50	382.40
	179.70	507	510	197.70	384.00
	180.80	511	515	198.90	386.00
	182.00	516	520	200.20	388.00
	183.10	521	524	201.50	389.60
	184.20	525	529	202.70	391.60
	185.40	530	534	204.00	393.60
	186.50	535	538	205.20	395.20
	187.60	539	543	206.40	397.20
	188.80	544	548	207.70	399.20
	189.90	549	553	208.90	401.20
	191.00	554	556	210.10	402.40
	192.00	557	560	211.20	404.00
	193.00	561	563	212.30	405.20
	194.00	564	567	213.40	406.80
	195.00	568	570	214.50	408.00
	196.00	571	574	215.60	409.60
	197.00	575	577	216.70	410.80
	198.00	578	581	217.80	412.40
	199.00	582	584	218.90	413.60
	200.00	585	588	220.00	415.20
	201.00	589	591	221.10	416.40
	202.00	592	595	222.20	418.00
	203.00	596	598	223.30	419.20
	204.00	599	602	224.40	420.80
	205.00	603	605	225.50	422.00
	206.00	606	609	226.60	423.60
	207.00	610	612	227.70	424.80
	208.00	613	616	228.80	426.40
	209.00	617	620	229.90	428.00
	210.00	621	623	231.00	429.20
	211.00	624	627	232.10	430.80
	212.00	628	630	233.20	432.00
	213.00	631	634	234.30	433.60
	214.00	635	637	235.40	434.80
	215.00	638	641	236.50	436.40
	216.00	642	644	237.60	437.60
	217.00	645	648	238.70	439.20
	218.00	649	656	239.80	442.40
		657	666	241.00	446.40
		667	676	242.00	450.40
		677	685	243.00	454.00
		686	695	244.00	458.00
		696	705	245.00	462.00
		706	715	246.00	466.00
		716	725	247.00	470.00
		726	734	248.00	473.60
		735	744	249.00	477.60
		745	750	250.00	480.00

(b) Section 203(a) of such Act is amended by striking out paragraph (2) and inserting in lieu thereof the following:

“(2) when two or more persons were entitled (without the application of section 202(j) (1) and section 223(b)) to monthly benefits under section 202 or 223 for March 1970 on the basis of the wages and self-employment income of such insured individual and at least one such person was so entitled for February 1970 on the basis of such wages and self-employment income, such total of benefits for March 1970 or any subsequent month shall not be reduced to less than the larger of—

“(A) the amount determined under this subsection without regard to this paragraph, or

“(B) an amount equal to the sum of the amounts derived by multiplying the benefit amount determined under this title (including this subsection, but without the application of section 222(b), section 202(q), and subsection (b), (c), and (d) of this section), as in effect prior to March 1970, for each such person for such month, by 110 percent and raising each such increased amount, if it is not a multiple of \$0.10, to the next higher multiple of \$0.10;

but in any such case (i) paragraph (1) of this subsection shall be applied to such total of benefits after the application of subparagraph (B), and (ii) if section 2202(k)(2)(A) was applicable in the case of any such benefits for March 1970, and ceases to apply after such months, the provisions of subparagraph (B) shall be applied, for and after the month in which section 202(k)(2)(A) ceases to apply, as though paragraph (1) had not been applicable to such total of benefits for March 1970, or”.

(c) Section 215(b)(4) of such Act is amended by striking out “January 1968” each time it appears and inserting in lieu thereof “February 1970”.

(d) Section 215(c) of such Act is amended to read as follows:

“Primary Insurance Amount Under 1967 Act

“(c)(1) For the purposes of column II of the table appearing in subsection (a) of this section, an individual’s primary insurance amount shall be computed on the basis of the law in effect prior to the enactment of the Social Security Amendments of 1969.

“(2) The provision of this subsection shall be applicable only in the case of an individual who became entitled to benefits under section 202(a) or section 223 before March 1970, or who died before such month.”

(e) The amendments made by this section shall apply with respect to monthly benefits under title II of the Social Security Act for months after February 1970 and with respect to lump-sum death payments under such title in the case of deaths occurring after February 1970.

(f) If an individual was entitled to a disability insurance benefit under section 223 of the Social Security Act for February 1970 and became entitled to old-age insurance benefits under section 202(a) of such Act for March 1970, or he died in such month, then, for purposes of section 215(a)(4) of the Social Security Act (if applicable), the amount in column IV of the table appearing in such section 215(a) for such individual shall be the amount in such column on the line on which in column II appears his primary insurance amount (as deter-

mined under section 215(c) of such Act) instead of the amount in column IV equal to the primary insurance amount on which his disability insurance benefit is based.

INCREASE IN BENEFITS FOR CERTAIN INDIVIDUALS AGE 72 AND OVER

SEC. 3. (a) (1) Section 227(a) of the Social Security Act is amended by striking out "\$40" and inserting in lieu thereof "\$44," and by striking out "\$20" and inserting in lieu thereof "\$22."

(2) Section 227(b) of such Act is amended by striking out in the second sentence "\$40" and inserting in lieu thereof "\$44".

(b) (1) Section 228(b) (1) of such Act is amended by striking out "\$40" and inserting in lieu thereof "\$44".

(2) Section 228(b) (2) of such Act is amended by striking out "\$40" and inserting in lieu thereof "\$44", and by striking out "\$20" and inserting in lieu thereof "\$22".

(3) Section 228(c) (2) of such Act is amended by striking out "\$20" and inserting in lieu thereof "\$22".

(4) Section 228(c) (3) (A) of such Act is amended by striking out "\$40" and inserting in lieu thereof "\$44".

(5) Section 228(c) (3) (B) of such Act is amended by striking out "\$20" and inserting in lieu thereof "\$22".

(c) The amendments made by subsections (a) and (b) shall apply with respect to monthly benefits under title II of the Social Security Act for months after February 1970.

AUTOMATIC ADJUSTMENT OF BENEFITS

SEC. 4. (a) Section 215 of the Social Security Act is amended by adding after subsection (h) the following new subsection:

"Cost-of-Living Increases in Benefits

"(i) (1) For purposes of this subsection—

"(A) the term 'base quarter' shall mean the period of three consecutive calendar months ending on September 30, 1969, and the period of 3 consecutive calendar months ending on September 30 of each year thereafter.

"(B) the term 'cost-of-living computation quarter' shall mean the base quarter in which the monthly average of the Consumer Price Index prepared by the Department of Labor exceeds, by not less than 3 per centum, the monthly average of such Index in the later of: (i) the 3 calendar-month period ending on September 30, 1969 or (ii) the base quarter which was most recently a cost-of-living computation quarter.

"(2) (A) If the Secretary determines that a base quarter in a calendar year is also a cost-of-living computation quarter, he shall, effective for January of the next calendar year, increase the benefit amount of each individual who for such month is entitled to benefits under section 227 or 228 and the primary insurance amount of each individual, specified in subparagraph (B) of this paragraph, by an amount derived by multiplying such amount of each such individual (including each such individual's primary insurance amount or benefit amount under section 227 or 228 as previously increased under this subparagraph) by the same per centum (rounded by the nearest one-tenth of 1 per centum) as the monthly average of the Consumer Price

Index for such cost-of-living computation quarter exceeds the monthly average of such Index for the base quarter determined after the application of clauses (i) and (ii) of paragraph (1) (B). Such increased primary insurance amount shall be considered such individual's primary insurance amount for purposes of this subsection, section 202, and section 223.

“(B) The increase provided by subparagraph (A) with respect to a particular cost-of-living computation quarter shall apply in the case of monthly benefits under this title for months after December of the calendar year in which occurred such cost-of-living computation quarter, based on the wages and self-employment income of an individual who became entitled to monthly benefits under section 202, 223, 227, or 228 (without regard to section 202(j)(1) or section 223(b)), or who died, in or before December of the calendar year in which occurred such cost-of-living computation quarter.

“(C) If the Secretary determines that a base quarter in a calendar year is also a cost-of-living computation quarter, he shall publish in the Federal Register on or before December 1 of such calendar year a determination that a benefit increase is resultantly required and the percentage thereof. He shall also publish in the Federal Register at that time a revision of the benefit table contained in subsection (a), as it may have been revised previously, pursuant to this subparagraph. Such revision shall be determined as follows:

“(i) The amount of each line of column II shall be changed to the amount shown on the corresponding line of column IV of the table in effect before this revision.

“(ii) The amount of each line of column IV shall be increased from the amount shown in the table in effect before this revision by increasing such amount by the per centum specified in subparagraph (A) of paragraph (2), raising each such increased amount, if not a multiple of \$0.10, to the next higher multiple of \$0.10.

“(iii) If the contribution and benefit base (as defined in section 230(b)) for the calendar year in which such benefit table is revised is lower than such base for the following calendar year, columns III, IV, and V shall be extended. The amount in the first additional line in column IV shall be the amount in the last line of such column as determined under clause (ii), plus \$1.00, rounding such increased amount to the nearest multiple of \$1.00. The amount of each succeeding line of column IV shall be the amount on the preceding line increased by \$1.00, until the amount on the last line of such column shall be equal to $\frac{1}{36}$ of the contribution and earnings base for the calendar year succeeding the calendar year in which such benefit table is revised, rounding such amount, if not a multiple of \$1.00, to the nearest multiple of \$1.00. The amount in each additional line of column III shall be determined so that the second figure in the last line of column III shall be $\frac{1}{12}$ of the contribution and earnings base for the calendar year following the calendar year in which such benefit table is revised, and the remaining figures in column III shall be determined in consistent mathematical intervals from column IV. The second figure in the last line of column III before the extension of the column shall be increased to a figure mathematically consistent with the figures determined in accordance with the preceding sentence. The amount on each line of column V shall be increased, to the extent

necessary, so that each such amount shall be equal to 40 per centum of the second figure in the same line of column III, plus 40 per centum of the smaller of (I) such second figure or (II) the larger of \$450 or 50 per centum of the largest figure in column III.

“(iv) The amount on each line of column V shall be increased, if necessary, so that such amount shall be at least equal to $1\frac{1}{2}$ times the amount shown on the corresponding line in column IV. Any such increased amount that is not a multiple of \$0.10 shall be increased to the next higher multiple of \$0.10.”

(b) Section 203(a) of such Act is amended by striking out the period at the end of the first sentence and inserting in lieu thereof, “or” and adding the following new paragraph:

“(4) when two or more persons are entitled (without the application of section 202(j) (1) and section 223(b)) to monthly benefits under section 202 or 223 for December in the calendar year in which occurs a cost-of-living computation quarter (as defined in section 215(i) (1)) on the basis of the wages and self-employment income of such insured individual, such total of benefits for the month immediately following shall be reduced to not less than the amount equal to the sum of the amounts derived by multiplying the benefit amount determined under this title (including this subsection, but without the application of section 222(b), section 202(q), and subsections (b), (c), and (d) of this section) as in effect for December for each such person by the same per centum increase as such individual’s primary insurance amount (including such amount as previously increased under section 215(i) (2)) is increased and raising each such increased amount, if not a multiple of \$0.10, to the next higher multiple of \$0.10.”

(c) (1) Section 202(a) of such Act is amended by striking out “(as defined in section 215(a)).”.

(2) Section 215(f) (4) of such Act is amended by adding at the end before the period the following: “(including a primary insurance amount as increased under subsection (i) (2)).”.

(3) Section 215(g) of such Act is amended by striking out “primary insurance amount” and inserting in lieu thereof “primary insurance amount (including a primary insurance amount as increased under subsection (i) (2)).”.

LIBERALIZATION OF EARNINGS TEST

SEC. 5. (a) (1) Paragraphs (1) and (4)(B) of section 203(f) of the Social Security Act are each amended by striking out “\$140” and inserting in lieu thereof “\$150 or the exempt amount as determined under paragraph (8).”.

(2) Paragraph (1)(A) of section 203(h) of such Act is amended by striking out “\$140” and inserting in lieu thereof “\$150 or the exempt amount as determined under paragraph (8).”.

(3) Paragraph (3) section 203(f) of such Act is amended to read as follows:

“(3) For purposes of paragraph (1) and subsection (h), an individual’s excess earnings for a taxable year shall be 50 per centum of his earnings for such in excess of the product of \$150 or the exempt amount as determined under paragraph (8) multiplied by the number of months in such year. The excess earnings as derived under the pre-

ceding sentence, if not a multiple of \$1, shall be reduced to the next lower multiple of \$1."

(b) Subsection (f) of section 203 of such Act is amended by adding at the end thereof the following new paragraph:

"(8) (A) On or before October 1 of 1972 and of each even-numbered year thereafter, the Secretary shall determine and publish in the Federal Register the exempt amount as defined in subparagraph (b) for each month in the two taxable years which end after the calendar year following the year in which such determination is made.

"(B) The exempt amount for each month of a particular taxable year shall be whichever of the following is the larger:

"(i) the product of \$150 and the ratio of (I) the average taxable wages of all persons for whom taxable wages were reported to the Secretary for the first calendar quarter of the calendar year in which a determination under subparagraph (A) is made for each such month of such particular taxable year to (II) the average of the taxable wages of all persons for whom wages were reported to the Secretary for the first calendar quarter of 1971; such product, if not a multiple of \$10, shall be rounded to the nearest multiple of \$10, or

"(ii) the exempt amount for each month in the taxable year preceding such particular taxable year; except that the provisions in clause (i) shall not apply with respect to any taxable year unless the contribution and earnings base for such year is determined under section 230(b)(1)."

(c) Clause (B) of Section 203(f)(1) of the Social Security Act is amended to read as follows:

"(B) in which such individual was age 72 or over, excluding from such excess earnings the earnings of an individual in or after the month in which he was age 72 in the year in which he attained age 72, with the amount (if any) of an individual's self-employment income in such year being prorated in an equitable manner under regulations prescribed by the Secretary."

(d) The amendments made by this section shall apply with respect to taxable years ending after December 1970.

INCREASE OF EARNINGS COUNTED FOR BENEFIT AND TAX PURPOSES

SEC. 6. (a)(1)(A) Section 209(a)(5) of the Social Security Act is amended by inserting "and prior to 1972" after "1967".

(B) Section 209(a) of such Act is further amended by adding at the end thereof the following new paragraphs:

"(6) That part of remuneration which, after remuneration (other than remuneration referred to in the succeeding subsections of this section) equal to \$9,000 with respect to employment has been paid to an individual during any calendar year after 1971 and prior to 1974, is paid to such individual during any such calendar year;

"(7) That part of remuneration which, after remuneration (other than remuneration referred to in the succeeding subsections of this section) equal to the contribution and earnings base (determined under section 230) with respect to employment paid to an individual during the calendar year with respect to which such contribution and earnings base was effective, is paid to such individual during such calendar year;

(2) (A) Section 211(b) (1) (E) of such Act is amended by inserting "and prior to 1972" after "1967", by striking out "; or" and inserting in lieu thereof "; and".

(B) Section 211(b) (1) of such Act is further amended by adding at the end thereof the following new subparagraphs:

"(F) For any taxable year ending after 1971 and prior to 1974, (i) \$9,000, minus (ii) the amount of the wages paid to such individual during the taxable year; and

"(G) For any taxable year ending in any calendar year after 1973, (i) an amount equal to the contribution and earnings base (as determined under section 230) effective for such calendar year, minus (ii) the amount of the wages to such individual during such taxable year, or".

(3) (A) Section 213(a) (2) (ii) of such Act is amended by striking out "after 1967" and inserting in lieu thereof "after 1967 and before 1972, or \$9,000 in the case of a calendar year after 1971 and before 1974, or an amount equal to the contribution and earnings base (as determined under section 230) in the case of any calendar year with respect to which such contribution and earnings base was effective".

(B) Section 213(a) (2) (iii) of such Act is amended by striking out "after 1967" and inserting in lieu thereof "after 1967 and prior to 1972, or \$9,000 in the case of a taxable year ending after 1971 and prior to 1974 or the amount equal to the contribution and earnings base, (as determined under section 230) in the case of any taxable year ending in any calendar year after 1973, effective for such calendar year".

(4) Section 215(e) (1) of such Act is amended by striking out "and the excess over \$7,800 in the case of any calendar year after 1967" and inserting in lieu thereof "the excess over \$7,800 in the case of any calendar year after 1967 and before 1972, the excess over \$9,000 in the case of any calendar year after 1971 and before 1974, and the excess over an amount equal to the contribution and earnings base (as determined under section 230) in the case of any calendar year after 1973 with respect to which such contribution and earnings base was effective".

(b) (1) (A) Section 1402(b) (1) (E) of the Internal Revenue Code of 1954 (relating to definition of self-employment income) is amended by inserting "and before 1972" after "1967", and by striking out "; or" and inserting in lieu thereof "; and".

(B) Section 1402(b) (1) of such Code is further amended by adding at the end thereof the following new subparagraphs:

"(F) for any taxable year ending after 1971 and before 1974, (i) \$9,000, minus (ii) the amount of the wages paid to such individual during the taxable year; and

"(G) for any taxable year ending in any calendar year after 1973, (i) an amount equal to the contribution and earnings base (as determined under section 230 of the Social Security Act) effective for such calendar year, minus (ii) the amount of the wages paid to such individual during such taxable year; or".

(2) (A) Section 3121(a) (1) of such Code (relating to definition of wages) is amended by striking out "\$7,800" each place it appears and inserting in lieu thereof "\$9,000".

(B) Effective with remuneration paid after 1973, section 3121(a) (1) of such Code is amended by (1) striking out "\$9,000" each place it appears and inserting in lieu thereof "the contribution and earnings base (as determined under section 230 of the Social Security Act)", and (2) striking out "by an employer during any calendar year", and in-

serting in lieu thereof "by an employer during the calendar year with respect to which such contribution and earnings base was effective".

(3) (A) The second sentence of section 3122 of such Code (relating to Federal service) is amended by striking out "\$7,800" and inserting in lieu thereof "\$9,000".

(B) Effective with remuneration paid after 1973, the second sentence of section 3122 of such Code is amended by striking out "\$9,000" and inserting in lieu thereof "the contribution and earnings base".

(4) (A) Section 3125 of such Code (relating to returns in the case of governmental employees in Guam, American Samoa, and the District of Columbia) is amended by striking out "\$7,800" where it appears in subsections (a), (b), and (c) and inserting in lieu thereof "\$9,000".

(B) Effective with remuneration paid after 1973, the second sentence of section 3125 of such Code is amended by striking out "\$9,000" where it appears in subsections (a), (b), and (c) and inserting in lieu thereof "the contribution and earnings base".

(5) Section 6413(c) (1) of such Code (relating to special refunds of employment taxes) is amended—

(A) by inserting "and prior to the calendar year 1972" after "after the calendar year 1967".

(B) by inserting after "exceed \$7,800" the following: "or (E) during any calendar year after the calendar year 1971 and prior to the calendar year 1974, the wages received by him during such year exceed \$9,000, or (F) during any calendar year after 1973, the wages received by him during such year exceed the contribution and earnings base (as determined under section 230 of the Social Security Act) effective with respect to such year;" and

(C) by inserting before the period at the end thereof the following: "and before 1972, or which exceeds the tax with respect to the first \$9,000 of such wages received in such calendar year after 1971 and before 1974, or which exceeds the tax with respect to the first amount equal to the contribution and earnings base (as determined under section 230 of the Social Security Act) of such wages received in the calendar year after 1973 with respect to which such contribution and earnings base was effective".

(6) Section 6413(c) (2) (A) of such Code (relating to refunds of employment taxes in the case of Federal employees) is amended by—

(A) striking out "or \$7,800 for any calendar year after 1967" and inserting in lieu thereof "\$7,800 for the calendar year 1968, 1969, 1970 and 1971, or \$9,000 for the calendar year 1972 or 1973, or an amount equal to the contribution and earnings base (as determined under section 230 of the Social Security Act) for any calendar year after 1973 with respect to which such contribution and earnings base was effective".

(c) The amendments made by subsections (a) (1) and (a) (3) (A), and the amendments made by subsection (b) (except paragraph (1) thereof), shall apply only with respect to remuneration paid after December 1971. The amendments made by subsections (a) (2), (a) (3) (B), and (b) (1) shall apply only with respect to taxable years ending after 1971. The amendment made by subsection (a) (4) shall apply only with respect to calendar years after 1971.

AUTOMATIC ADJUSTMENT OF EARNINGS BASE

SEC. 7. (a) Title II of the Social Security Act is amended by adding at the end thereof the following new section:

"AUTOMATIC ADJUSTMENT OF EARNINGS BASE

"SEC. 230. (a) On or before October 1 of 1972, and each even-numbered year thereafter, the Secretary shall determine and publish in the Federal Register the contribution and earnings base (as defined in subsection (b)) for the two calendar years succeeding the calendar year following the year in which the determination is made.

"(b) The contribution and earnings base for a particular calendar year shall be whichever of the following is the larger.

"(1) the product of \$9,000 and the ratio of (A) the average taxable wages of all persons for whom taxable wages were reported to the Secretary for the first calendar quarter of the calendar year in which a determination under subsection (a) is made for such particular calendar year to (B) the average of the taxable wages of all persons for whom taxable wages were reported to the Secretary for the first calendar quarter of 1971; such product, if not a multiple of \$600, shall be rounded to the nearest multiple of \$600, or

"(2) the contribution and earnings base for the calendar year preceding such particular calendar year."

(b) That part of section 215(a) of the Social Security Act which precedes the table is amended by striking out "or" at the end of paragraph (3), by striking out the period at the end of paragraph (4) and inserting in lieu thereof "or the amount equal to his primary insurance amount upon which such disability insurance benefit is based if such primary insurance amount was determined under paragraph (5); or", and by inserting after paragraph (4) the following:

"(5) If such insured individual's average monthly wage (as determined under subsection (b)) exceeds \$750, the amount equal to the sum of (A) \$54.48 and (B) 28.47 per centum of such average monthly wage; such sum, if it is not a multiple of \$1, shall be rounded to the nearest multiple of \$1."

(c) So much of section 203(a) as precedes paragraph (2) is amended to read as follows:

"SEC. 203(a) Whenever the total of monthly benefits to which individuals are entitled under sections 202 and 223 for a month on the basis of the wages and self-employment income of an insured individual exceeds the larger of: (I) the amount appearing in column V of the table in section 215(a) on the line on which appears in column IV such insured individual's primary insurance amount, and (II) the amount which is equal to the sum of \$180.00 and 40 per centum of the highest average monthly wage (as determined under section 215(b)), which will produce the primary insurance amount of such individual (as determined under section 215(a)(5)), such total of monthly benefits to which such individuals are entitled shall be reduced to the larger amount determined under (I) or (II) above, whichever is applicable; except that—

"(1) when any such individuals so entitled would (but for the provisions of section 202(k)(2)(A)) be entitled to child's insurance benefits on the basis of the wages and self-employment income of one or more other insured individuals, such total benefits shall not be reduced to less than the larger of:

"(A) the sum of the maximum amounts of benefits payable on the basis of the wages and self-employment income of all such insured individuals, but not more than the last

figure in column V of the table appearing in section 215(a), and

“(B) the amount determined under clause (II) for the highest primary insurance amount of any such insured individual (if such primary insurance amount is determined under section 215(a)(15)).”

(d)(1) Section 201(c) of the Social Security Act is amended by inserting before the last sentence the following sentence:

“The report shall further include a recommendation as to the appropriateness of the tax rates in sections 1401(a), 3101(a), and 3111(a) of the Internal Revenue Code of 1954, which will be in effect for the following calendar year; this recommendation shall be made in the light of the need for the estimated income in relationship to the estimated outgo of the Trust Funds during such year.”

(2) Section 1817(b) of such Act is amended by inserting before the last sentence the following sentence:

“The report shall further include a recommendation as to the appropriateness of the tax rates in sections 1401(b), 3101(b), and 3111(b) of the Internal Revenue Code of 1954, which will be in effect for the following calendar year; this recommendation shall be made in the light of the need for the estimated income in relationship to the estimated outgo of the Trust Fund during such year”.

(e) The amendments made by subsections (b) and (c) shall apply with respect to monthly benefits for months after December 1973 and with respect to lump-sum death payments under such title in the case of deaths occurring after 1973.

CHANGES IN TAX SCHEDULES

SEC. 8. (a)(1) Section 1401(a) of the Internal Revenue Code of 1954 (relating to rate of tax on self-employment income for purposes of old-age, survivors, and disability insurance) is amended by striking out paragraphs (1), (2), (3), and (4) and inserting in lieu thereof the following:

“(1) in the case of any taxable year beginning after December 31, 1969, and before January 1, 1975, the tax shall be equal to 6.3 percent of the amount of the self-employment income for such taxable year;

“(2) in the case of any taxable year beginning after December 31, 1974, and before January 1, 1977, the tax shall be equal to 6.9 percent of the amount of the self-employment income for such taxable year; and

“(3) in the case of any taxable year beginning after December 31, 1976, the tax shall be equal to 7.0 percent of the amount of the self-employment income for such taxable year.”

(2) Section 3101(a) of such Code (relating to rate of tax on employees for purposes of old-age, survivors, and disability insurance) is amended by striking out paragraphs (1), (2), (3), and (4) and inserting in lieu thereof the following:

“(1) with respect to wages received during the calendar years 1970, 1971, 1972, 1973 and 1974, the rate shall be 4.2 percent;

“(2) with respect to wages received during the calendar years 1975 and 1976, the rate shall be 4.6 percent;

“(3) with respect to wages received during the calendar years 1977, 1978, and 1979, the rate shall be 4.8 percent;

“(4) with respect to wages received during the calendar years 1980, 1981, 1982, 1983, 1984, 1985, and 1986, the rate shall be 4.9 percent; and

“(5) with respect to wages received after December 31, 1986, the rate shall be 5.0 percent.”

(3) Section 3111(a) of such Code (relating to rate of tax on employers for purposes of old-age, survivors, and disability insurance) is amended by striking out paragraphs (1), (2), (3), and (4) and inserting in lieu thereof the following:

“(1) with respect to wages paid during the calendar years 1970, 1971, 1972, 1973 and 1974, the rate shall be 4.2 percent;

“(2) with respect to wages paid during the calendar years 1975 and 1976, the rate shall be 4.6 percent;

“(3) with respect to wages paid during the calendar years 1977, 1978, and 1979, the rate shall be 4.8 percent;

“(4) with respect to wages paid during the calendar years 1980, 1981, 1982, 1983, 1984, 1985, and 1986, the rate shall be 4.9 percent; and

“(5) with respect to wages paid after December 31, 1986, the rate shall be 5.0 percent.”

(b)(1) Section 1401(b) of such Code (relating to rate of tax on self-employment income for purposes of hospital insurance) is amended by striking out paragraphs (1), (2), (3), (4), and (5) and inserting in lieu thereof the following:

“(1) in the case of any taxable year beginning after December 31, 1969, and before January 1, 1971, the tax shall be equal to 0.60 percent of the amount of the self-employment income for such taxable year; and

“(2) in the case of any taxable year beginning after December 31, 1970, the tax shall be equal to 0.90 percent of the amount of the self-employment income for such taxable year.”

(2) Section 3101(b) of such Code (relating to rate of tax on employees for purposes of hospital insurance) is amended by striking out paragraphs (1), (2), (3), (4), and (5) and inserting in lieu thereof the following:

“(1) with respect to wages received during the calendar year 1970, the rate shall be 0.60 percent; and

“(2) with respect to wages received after December 31, 1970, the rate shall be 0.90 percent.”

(3) Section 3111(b) of such Code (relating to rate of tax on employers for purposes of hospital insurance) is amended by striking out paragraphs (1), (2), (3), (4), and (5) and inserting in lieu thereof the following:

“(1) with respect to wages paid during the calendar year 1970, the rate shall be 0.60 percent; and

“(2) with respect to wages paid after December 31, 1970, the rate shall be 0.90 percent.”

(c) The amendments made by subsections (a)(1) and (b)(1) shall apply only with respect to taxable years beginning after December 31, 1969. The remaining amendments made by this section shall apply only with respect to remuneration paid after December 31, 1969.

AGE-62 COMPUTATION POINT FOR MEN

SEC. 9. (a) Section 214(a)(1) of the Social Security Act is amended by striking out "before—" and by striking out all of subparagraphs (A), (B), and (C) and by inserting in lieu thereof "before the year in which he died or (if earlier) the year in which he attained age 62,".

(b) Section 215(b)(3) of such Act is amended by striking out "before—" and all of subparagraphs (A), (B), and (C) and by inserting in lieu thereof "before the year in which he died or, if it occurred earlier but after 1960, the year in which he attained age 62.".

(c) Section 215(f) of such Act is amended by striking out paragraph (5) and inserting in lieu thereof the following:

"(5) In the case of an individual who is entitled to monthly benefits for a month after December 1970, on the basis of the wages and self-employment income of an insured individual who prior to January 1971 became entitled to benefits under section 202(a), became entitled to benefits under section 223 after the year in which he attained age 62, or died in a year after the year in which he attained age 62, the Secretary shall, notwithstanding paragraphs (1) and (2), recompute the primary insurance amount of such insured individual. Such re-computation shall be made under whichever of the following alternative computation methods yields the higher primary insurance amount:

"(A) the computation methods of this section, as amended by the Social Security Amendments of 1969, which would be applicable in the case of an insured individual who attained age 62 after December 1970, or

"(B) under the provisions in subparagraph (A) (but without regard to the limitation, 'but after 1960' contained in paragraph (3) of subsection (b)), except that for any such re-computation, when the number of an individual's benefit computation years is less than 5, his average monthly wage shall, if it is in excess of \$400, be reduced to such amount."

(d) Section 223(a)(2) of such Act is amended by—

(1) striking out "(if a woman) or age 65 (if a man)",

(2) striking out "in the case of a woman" and inserting in lieu thereof "in the case of an individual", and

(3) striking out "she" and inserting in lieu thereof "he".

(e) Section 223(c)(1)(A) is amended by striking out "(if a woman) or age 65 (if a man)".

(f) The amendments made by the preceding subsections of this section shall apply with respect to monthly benefits under title II of the Social Security Act for months after December 1970 and with respect to lump-sum death payments made in the case of an insured individual who died after such month.

(g) Sections 209(i), 216(i)(3)(A), and 213(a)(2) of the Social Security Act are amended by striking out "(if a woman) or age 65 (if a man)".

ENTITLEMENT TO CHILD'S INSURANCE BENEFITS BASED ON DISABILITY WHICH BEGAN BETWEEN 18 AND 22

SEC. 10. (a) Clause (ii) of section 202(d)(1)(B) of the Social Security Act is amended by striking out "which began before he attained the age of 18" and inserting in lieu thereof "which began before he attained the age of 22".

(b) Subparagraphs (F) and (G) of section 202(d)(1) of such Act are amended to read as follows:

“(F) if such child was not under a disability (as so defined) at the time he attained the age of 18, the earlier of—

“(i) the first month during no part of which he is a full-time student, or

“(ii) the month in which he attains the age of 22, but only if he was not under a disability (as so defined) in such earlier month; or

“(G) if such child was under a disability (as so defined) at the time he attained the age of 18, or if he was not under a disability (as so defined) at such time but was under a disability (as so defined) at or prior to the time he attained (or would attain) the age of 22, the third month following the month in which he ceases to be under such disability or (if later) the earlier of—

“(i) the first month during no part of which he is a full-time student, or

“(ii) the month in which he attains the age of 22, but only if he was not under a disability (as so defined) in such earlier month.”

(c) Section 202(d)(1) of such Act is further amended by adding at the end thereof the following new sentence: “No payment under this paragraph may be made to a child who would not meet the definition of disability in section 223(d) except for paragraph (1)(B) thereof for any month in which he engages in substantial gainful activity.”

(d) Paragraph (6) of section 202(d) is amended by striking out “in which he is a full-time student and has not attained the age of 22” and all that follows and inserting in lieu thereof “in which he—

“(A) (i) is a full-time student or (ii) is under a disability (as defined in section 223(d)), and

“(B) had not attained the age of 22, but only if he has filed application for such reentitlement. Such reentitlement shall end with the month preceding whichever of the following first occurs:

“(C) the first month in which an event specified in paragraph (1)(D) occurs; or

“(D) the earlier of (i) the first month during no part of which he is a full-time student or (ii) the month in which he attains the age of 22, but only if he is not under a disability (as so defined) in such earlier month; or

“(E) if he was under a disability (as so defined), the third month following the month in which he ceases to be under such disability or (if later) the earlier of—

“(i) the first month during no part of which he is a full-time student, or

“(ii) the month in which he attains the age of 22.”

(e) Section 202(s) of such Act is amended—

(1) by striking out “before he attained such age” in paragraph (1) and inserting in lieu thereof “before he attained the age of 22”; and

(2) by striking out “before such child attained the age of 18” in paragraphs (2) and (3) and inserting in lieu thereof “before such child attained the age of 22”.

(f) The amendments made by this section shall apply only with respect to monthly insurance benefits payable under section 202 of the Social Security Act for months after December 1970, except that in the case of an individual who was not entitled to a monthly benefit under such section for December 1970, such amendments shall apply only on the basis of an application filed after September 30, 1970.

ALLOCATION TO DISABILITY INSURANCE TRUST FUND

SEC. 11. (a) Section 201(b)(1) of the Social Security Act is amended by—

(1) striking out “and” at the end of clause (B);

(2) striking out “1967, and so reported,” and inserting in lieu thereof the following: “1967, and before January 1, 1970, and so reported, and (D) 1.05 per centum of the wages (as so defined) paid after December 31, 1969, and so reported,”.

(b) Section 201(b)(2) of such Act is amended by—

(1) striking out “and” at the end of clause (B);

(2) striking out “1967,” and inserting in lieu thereof the following: “1967, and before January 1, 1970, and (D) 0.7875 of 1 per centum of the amount of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 1969,”.

WAGE CREDITS FOR MEMBERS OF THE UNIFORMED SERVICES

SEC. 12. (a) Subsection 229(a) of such Act is amended by—

(1) striking out “after December 1967,” and inserting in lieu thereof “after December 1970”;

(2) striking out “after 1967” and inserting in lieu thereof “after 1956”; and

(3) striking out all of paragraphs (1), (2), and (3), and inserting in lieu thereof “\$300”.

(b) The amendments made by subsection (a) shall apply with respect to monthly benefits payable under title II of the Social Security Act for months after December 1970, and with respect to lump-sum death payments in the case of deaths occurring after December 1970, except that, in the case of any individual who is entitled, on the basis of the wages and self-employment income of any individual to whom section 229 applies, to monthly benefits under title II of such Act for December 1970, such amendments shall apply (A) only if an application for recomputation by reason of such amendments is filed by such individual, or any other individual, entitled to benefits under such title II on the basis of such wages and self-employment income, and (B) only with respect to such benefits for months after whichever of the following is later: December 1970 or the twelfth month before the month in which such application was filed. Recomputations of benefits as required to carry out the provisions of this paragraph shall be made notwithstanding the provisions of section 215(f)(1) of the Social Security Act; but no such recomputation shall be regarded as a recomputation for purposes of section 215(f) of such Act.

PARENT'S INSURANCE BENEFITS IN CASE OF RETIRED OR DISABLED WORKER

SEC. 13. (a) Paragraphs (1) and (2) of section 202(h) of the Social Security Act are amended to read as follows:

“(1) Every parent (as defined in this subsection) of an individual entitled to old-age or disability insurance benefits, or of an individual who died a fully insured individual, if such parent—

“(A) has attained age 62,

“(B) was receiving at least one-half of his support, as determined in accordance with regulations prescribed by the Secretary, from such individual—

“(i) if such individual is entitled to old-age or disability insurance benefits, at the time he became entitled to such benefits,

“(ii) if such individual has died, at the time of such death, or

“(iii) if such individual had a period of disability which continued until he became entitled to old-age or disability insurance benefits, or (if he had died) until the month of his death, at the beginning of such period of disability, and has filed proof of such support within two years after the month in which such individual filed application with respect to such period of disability, became entitled to such benefits, or died, as the case may be,

“(C) is not entitled to old-age or disability insurance benefits, or is entitled to such benefits, each of which is (i) less than 50 percent of the primary insurance amount of such individual if such individual is entitled to old-age or disability insurance benefits, or (ii) less than $82\frac{1}{2}$ percent of the primary insurance amount of such individual if such individual is deceased, and if the amount of the parent's insurance benefit for such month is determinable under paragraph (2) (A) (or 75 percent of such primary insurance amount in any other case),

“(D) has not married since the time with respect to which the Secretary determines, under subparagraph (B) of this paragraph, that such parent was receiving at least one-half of his support from such individual, and

“(E) has filed application for parent's insurance benefits, shall be entitled to a parent's insurance benefit for each month, beginning with the first month in which such parent becomes so entitled to such parent's insurance benefits and ending with the month preceding the first month in which any of the following occurs—

“(F) such parent dies or marries, or

“(G) (i) if such individual is entitled to old-age or disability insurance benefits, such parent becomes entitled to an old-age or disability insurance benefit based on a primary insurance amount which is equal to or exceeds one-half of the primary insurance amount of such individual, or (ii) if such individual has died, such parent becomes entitled to an old-age or disability insurance benefit which is equal to or exceeds $82\frac{1}{2}$ percent of the primary insurance amount of such deceased individual if the amount of the parent's insurance benefit for such month is determinable under paragraph (2) (A) (or 75 percent of such primary insurance amount in any other case), or

“(H) such individual, if living, is not entitled to disability insurance benefits and is not entitled to old-age insurance benefits.

“(2) (A) Except as provided in subparagraphs (B) and (C), such parent's insurance benefit for each month shall be equal to—

(i) if the individual on the basis of whose wages and self-employment income the parent is entitled to such benefit has not died prior to the end of such month, one-half of the primary insurance amount of such individual for such month, or

“(ii) if such individual has died in or prior to such month, 82½ percent of the primary insurance amount of such deceased individual;

“(B) For any month for which more than one parent is entitled to parent’s insurance benefits on the basis of the wages and self-employment income of an individual who died in or prior to such month, such benefit for each such parent for such month shall (except as provided in subparagraph (C)) be equal to 75 percent of the primary insurance amount of such deceased individual;

“(C) In any case in which—

“(i) any parent is entitled to a parent’s insurance benefit for a month on the basis of the wages and self-employment income of an individual who died in or prior to such month, and

“(ii) another parent of such deceased individual is entitled to a parent’s insurance benefit for such month on the basis of such wages and self-employment income, and on the basis of an application filed after such month and after the month in which the application for the parent’s insurance benefits referred to in clause (i) was filed,

the amount of the parent’s insurance benefit of the parent referred to in clause (i) for the month referred to in such clause shall be determined under subparagraph (A) instead of subparagraph (B) and amount of the parent’s insurance benefit of the parent referred to in clause (ii) for such month shall be equal to 150 percent of the primary insurance amount of such individual minus the amount (before the application of section 203(a)) of the benefit for such month of the parent referred to in clause (i).

(b) Section 202(q) of such Act is amended by—

(1) inserting in paragraph (1) after “husband’s,” the following: “parent’s,” and by striking out in such paragraph (1) “or husband’s” and inserting in lieu thereof “, husband’s, or parent’s”;

(2) inserting in paragraph (3) after “husband’s,” wherever it appears the following: “parent’s” and by striking out in such paragraph (3) “or husband’s” wherever it appears and inserting in lieu thereof “husband’s, or parent’s”;

(3) inserting in paragraph (6) after “husband’s,” wherever it appears the following: “parent’s,”; and by striking out in such paragraph (6) “or husband’s” wherever it appears and inserting in lieu thereof “husband’s, or parent’s”;

(4) inserting in paragraph (7) after “husband’s,” the following: “parent’s,” and by striking out “or husband’s” and inserting in lieu thereof “husband’s, or parent’s”; and

(5) adding at the end thereof the following new paragraph :

“(10) For purposes of this subsection, ‘parent’s insurance benefits’ means benefits payable under this section to a parent on the basis of the wages and self-employment income of an individual entitled to old-age insurance benefits or disability insurance benefits.”

(c) Section 202(r) of such Act is amended—

(1) by striking out “or Husband’s” in the heading and inserting in lieu thereof, “Husband’s, or Parent’s”; and

(2) by striking out "or husband's" each time it appears in paragraphs (1) and (2) and inserting in lieu thereof, "husband's, or parent's".

(d) Section 203(d) (1) of such Act is amended by striking out "or child's" wherever it appears and inserting in lieu thereof "child's, or parent's" and by striking out "or child" and inserting in lieu thereof "child, or parent".

(e) Subparagraph (C) of section 202(q) (7) of such Act is amended—

(1) by striking out "wife's or husband's insurance benefits" and inserting in lieu thereof "wife's, husband's, or parent's insurance benefits"; and

(2) by striking out "the spouse" and inserting in lieu thereof "the individual".

(f) Section 222(b) (3) of such Act is amended—

(1) by striking out "husband's, or child's" wherever it appears and inserting in lieu thereof "husband's, parent's, or child's"; and

(2) by striking out "husband, or child" and inserting in lieu thereof "husband, parent, or child".

(g) Where—

(1) one or more persons were entitled (without the application of section 202(j) (1) of the Social Security Act) to monthly benefits under section 202 or 223 of such Act for December 1970 on the basis of the wages and self-employment income of an individual, and

(2) one or more persons are entitled to monthly benefits for January 1971 solely by reason of this section on the basis of such wages and self-employment income, and

(3) the total of benefits to which all persons are entitled under such section 202 or 223 on the basis of such wages and self-employment income for January 1971 is reduced by reason of section 203(a) of such Act, as amended by this Act (or would, but for the penultimate sentence of such section 203(a), be so reduced), then the amount of the benefit to which each person referred to in paragraph (1) of the subsection is entitled for months after December 1970 shall be increased, after the application of such section 203(a), to the amount it would have been if the person or persons referred to in paragraph (2) were not entitled to a benefit referred to in such paragraph (2).

(h) The amendments made by this section shall apply only with respect to monthly insurance benefits payable under Section 202 of the Social Security Act for months after December 1970 and only on the basis of an application filed after September 30, 1970.

(i) The requirement in section 202(h) (1) (B) of the Social Security Act that proof of support be filed within two years after a specified date in order to establish eligibility for parent's insurance benefits shall, insofar as such requirement applies to cases where applications under such subsection are filed by parents on the basis of the wages and self-employment income of an individual entitled to old-age or disability insurance benefits, not apply if such proof of support is filed within two years after the date of enactment of this Act.

INCREASED WIDOW'S AND WIDOWER'S INSURANCE BENEFITS

SEC. 14. (a) Subsection (e) of section 202 of the Social Security Act is amended as follows:

(1) Paragraphs (1) and (2) of such subsection are amended by striking out "82½ per cent of" wherever it appears.

(2) Paragraph (5) of such subsection is amended by striking out "60" and inserting in lieu thereof "65."

(b) Subsection (f) of section 202 of such Act is amended as follows:

(1) Paragraphs (1) and (3) of such subsection are amended by striking out "82½ percent of" wherever it appears.

(2) Paragraph (6) of such subsection is amended by striking out "62" and inserting in lieu thereof "65."

(c)(1) The last sentence of subsection (c) of section 203 of such Act is amended by striking out all that follows the semicolon and inserting in lieu thereof the following: "nor shall any deduction be made under this subsection from any widow's insurance benefit for any month in which the widow or surviving divorced wife is entitled and has not attained age 65 (but only if she became so entitled prior to attaining age 60), or from any widower's insurance benefit for any month in which the widower is entitled and has not attained age 65 (but only if he became so entitled prior to attaining age 62)."

(2) Subparagraph (D) of section 203(f)(1) of such Act is amended to read as follows:

"(D) for which individual is entitled to widow's insurance benefits and has not attained age 65 (but only if she became so entitled prior to attaining age 60), or widower's insurance benefits and has not attained age 65 (but only if he became so entitled prior to attaining age 62), or".

(d) Subsection (q) of section 202 of such Act, as amended by this Act, is further amended as follows:

(1) That part of paragraph (1) of such subsection which precedes subparagraph (C) is amended to read as follows:

"(q)(1) If the first month for which an individual is entitled to an old-age, wife's, husband's, parent's, widow's, or widower's insurance benefit is a month before the month in which such individual attains retirement age, the amount of such benefit for each month shall, subject to the succeeding paragraphs of this subsection, be reduced—

"(A) for each month of such entitlement within the 36-month period immediately preceding the month in which such individual attains retirement age, by

"(i) 5/9 of 1 percent of such amount if such benefit is an old-age insurance benefit, 25/36 of 1 percent of such amount if such benefit is a wife's, husband's, or parent's insurance benefit, or 35/72 of 1 percent of such amount if such benefit is a widow's or widower's insurance benefit, multiplied by

"(ii) the number of such months in (I) the reduction period for such benefit (determined under paragraph (6)(A)), if such benefit is for a month before the month in which such individual attains retirement age, or (II) the adjusted reduction period for such benefit (determined under paragraph (7)), if such benefit is for the month in which such individual attains retirement age or for any month thereafter, and—

"(B) for each month of the 24-month period for which a widow, or widower, is entitled to a widow's or widower's insurance benefit immediately preceding the month in which such individual attains age 62, the amount of such individual's widow's

or widower's benefit as reduced under subparagraph (A) shall be further reduced by—

- “(i) $\frac{5}{9}$ of 1 percent of such reduced benefit, multiplied by
- “(ii) the number of such months in (I) the reduction period for such benefit, if such benefit is for a month before the month in which such individual attains age 62, or (II) the adjusted reduction period for such benefit (determined under paragraph (7)), if such benefit is for the month in which such individual attains retirement age or for any month thereafter.

“A widow's or widower's insurance benefit reduced pursuant to the preceding sentence shall be further reduced by—”.

(2) Paragraph (2) of such subsection is amended by striking out “paragraphs (1) and (4)” and inserting in lieu thereof “paragraphs (1), (3), and (4)”.

(3) Paragraph (3) of such subsection is amended by—

- (A) striking out subparagraph (F), and
- (B) redesignating subparagraph (G) as subparagraph (F), striking out of such subparagraph “(when such first month occurs before the month in which such individual attains the age of 62)”, and striking out “age 62” and inserting in lieu thereof “age 65”.

(4) Paragraph (9) of such subsection is amended to read as follows:

“(9) For purposes of this subsection, the term ‘retirement age’ means age 65.”.

(e) Subsection (r) of section 202 of such Act, as amended by this Act, is further amended as follows:

(1) by striking out “Husband's, or Parent's” in the heading and inserting in lieu thereof “Husband's, Parent's, Widow's, or Widower's”; and

(2) by striking out “husband's, or parent's” each time it appears in paragraphs (1) and (2) and inserting in lieu thereof “husband's, parent's, widows, or widower's.”.

(f) In the case of an individual who is entitled (without the application of section 202(j)(1) and 223(b)) to widow's or widower's insurance benefits for the month of December 1970, if such individual's entitlement to such benefits began with a month after the month he attained age 62, the Secretary shall redetermine the amount of such benefits under the provisions of this section as if these provisions had been in effect for the first month of such individual's entitlement to such benefits.

(g) The amendments made by this section shall be effective for monthly benefits for months after December 1970.

COST ESTIMATES

SEPTEMBER 25, 1969.

Memorandum.

To: Mr. Robert M. Ball, Commissioner of Social Security.

From: Robert J. Myers, Chief Actuary.

Subject: Summary results of new cost estimates for present OASDI and HI systems and for President's proposal.

This memorandum will summarize the results of the new cost estimates for the old-age, survivors, and disability insurance system that have just now been completed. At the same time, it is essential that the current actuarial situation of the Hospital Insurance system should be considered simultaneously. Although the revision of the HI cost estimates has not yet been completed, preliminary estimates have been made, and these should be close to the final results that will be produced subsequently. Information will also be presented as to the cost aspects of the proposal just made by President Nixon.

It will be recalled that the cost estimates for the OASDI system which were contained in the 1969 Trustees Report showed a positive long-range actuarial balance (that is, a financial surplus) of 53 percent of taxable payroll. The new cost estimates show that this positive balance is increased to 1.16 percent of taxable payroll. The principal reasons for this change, and the amount that each contributes to the increase of .63 percent of taxable payroll in the financial surplus, are as follows:

(1) The use of a higher earnings-level assumption (namely, 1969 earnings as against 1968 earnings)—.22 percent of taxable payroll.

(2) The use of a higher interest-rate assumption (namely, $4\frac{3}{4}$ percent as against $4\frac{1}{4}$ percent)—.11 percent of taxable payroll.

(3) The use of higher labor-force participation rates for both men and women (based on recent actual experience), which, because of the weighted benefit formula and the provision preventing, in essence, receipt of benefits on more than one earnings record, results in a greater increase in estimated income than in estimated outgo—.23 percent of taxable payroll.

(4) Update of other factors—.07 percent of taxable payroll.

Now, turning to the cost estimates for the HI system, it will be recalled that the estimates contained in the 1969 Trustees Report showed a negative long-range actuarial balance (that is, a financial deficit) of .29 percent of taxable payroll. The preliminary new cost estimates show that this negative balance has become larger—namely, —.77 percent of taxable payroll. The principal reasons for this change are as follows:

(1) The use of higher hospital utilization rates as the initial 1969 base and the introduction of an assumption that these rates will increase gradually over the next decade (at an average annual rate of about 1 percent), both of which assumptions are

based on an extensive analysis of recent operating experience.

(2) The use of higher assumed increases in hospital per diem costs than previously assumed (namely, 15 percent for 1969, 14 percent for 1970, 13 percent for 1971, grading down to 4 percent after 1977, as compared with the previous assumption of 12 percent for 1969, 9 percent for 1970, 7½ percent for 1971, grading down to 3½ percent after 1974), which assumption is based on analysis and projection of recent operating and other experience.

Offsetting slightly the foregoing increased-cost assumptions for the HI cost estimates are several other changed assumptions, including the following:

(1) The use of a higher interest rate (namely, 5 percent as against 4½ percent).

(2) A reduction in the estimated cost of the extended care facility benefits (since the previous estimate seems to have included the assumption of too rapid an increase in the utilization of such benefits).

(3) As in the OASDI estimates, higher labor-force participation rates and a higher initial payroll-tax base and higher assumed increases in future earnings levels (for example, ultimately, 4 percent per year as against 3½ percent used previously).

Finally, I might point out that an increase in the taxable earnings base from the present \$7,800 per year would have a favorable effect on the financing of both the OASDI and HI systems. For example, a change to \$9,000 would increase the positive actuarial balance of the OASDI system by .23 percent of taxable payroll and would decrease the negative actuarial balance of the HI system of .17 percent of taxable payroll.

President Nixon has proposed that the benefit provisions of the OASDI system should be changed in the following manner:

(1) An across-the-board benefit increase of 10 percent.

(2) A modification of the retirement test, so that the annual exempt amount would be increased from \$1,680 to \$1,800, and the "\$1 for \$2" reduction would apply to all earnings in excess of the annual exempt amount (instead of only to the first \$1,200 above the normal exempt amount, as in present law).

(3) Payment of dependent parent's benefits with respect to old-age beneficiaries and disability beneficiaries.

(4) Increase from age 18 to age 22 the limit before which adult children must have been disabled in order to receive child's benefits.

(5) Modify the retirement test as it applies to the year of attainment of age 72, so that earnings in and after the month of attainment are not counted against the annual test.

(6) Have an age-62 computation point for men, instead of age 65 (that is, having the same point for men that women have under present law).

(7) Pay widow's benefits of 100 percent of the PIA when first payable at or after age 65, graded down to 82½ percent when first claimed at age 62.

(8) Increase in the taxable earnings base from \$7,800 to \$9,000, effective for 1972; thereafter, automatic adjustment of the earnings base in accordance with changes in the level of wages in covered employment.

(9) Automatic adjustment of the OASDI benefits in accordance with changes in the cost of living and automatic adjustment of the annual exempt amount of the retirement test in accordance with changes in the level of wages in covered employment; insofar as the OASDI system is concerned, the cost of these benefit changes would be financed by the automatic adjustment of the earnings base, while insofar as the HI system is concerned, the additional financing due to the automatic adjustment of the earnings base would have a significant effect on its actuarial status.

(10) Changes in the contribution schedules, as shown in table I. Under the President's proposal, the long-range actuarial balance of the OASDI system is estimated to be $-.09$ percent of taxable payroll, while the corresponding figure for the HI program is $+.06$ percent of taxable payroll. Both of these relatively small balances are within the limits generally acceptable, and so the proposal is in actuarial balance.

Table 2 shows the progress of the combined OASI and DI trust funds and of the HI trust fund for fiscal years 1970-73 under present law. Table 3 gives similar data for the President's proposal.

ROBERT J. MYERS.

TABLE 1.—COMPARISON OF PRESENT AND PROPOSED CONTRIBUTION SCHEDULES

[In percent]

Period	Combined employer-employee		Self-employed	
	Present	Proposed	Present	Proposed
OASDI rate:				
1970.....	8.4	8.4	6.3	6.3
1971-72.....	9.2	8.4	6.9	6.3
1973-74.....	10.0	8.4	7.0	6.3
1975-76.....	10.0	9.2	7.0	6.9
1977-79.....	10.0	9.6	7.0	7.0
1980-86.....	10.0	9.8	7.0	7.0
1987 and after.....	10.0	10.0	7.0	7.0
HI rate:				
1970.....	1.2	1.2	.6	.6
1971-72.....	1.2	1.8	.6	.9
1973-74.....	1.3	1.8	.65	.9
1975.....	1.3	1.8	.7	.9
1976-79.....	1.4	1.8	.7	.9
1980-86.....	1.6	1.8	.8	.9
1987 and after.....	1.8	1.8	.9	.9
Combined OASDI-HI rate:				
1970.....	9.6	9.6	6.9	6.9
1971-72.....	10.4	10.2	7.5	7.2
1973-74.....	11.3	10.2	7.65	7.2
1975.....	11.3	11.0	7.65	7.8
1976.....	11.4	11.0	7.7	7.8
1977-79.....	11.4	11.4	7.7	7.9
1980-86.....	11.6	11.6	7.8	7.9
1987 and after.....	11.8	11.8	7.9	7.9

TABLE 2.—ESTIMATED SHORT-RANGE PROGRESS OF TRUST FUNDS UNDER PRESENT LAW

[In billions]

Fiscal year	Contribution income	Other income ¹	Benefit outgo	Other outgo ²	Net income	Fund at end of year
OASDI trust funds:						
1970-----	\$33.4	\$1.8	\$27.3	\$1.2	\$6.8	\$38.7
1971-----	36.3	2.3	28.4	1.2	8.9	47.6
1972-----	40.3	2.8	29.6	1.2	12.3	59.9
1973-----	43.9	3.5	30.7	1.3	15.4	75.3
HI trust fund:						
1970-----	4.7	.8	5.2	.1	.2	2.2
1971-----	4.9	1.0	6.2	.1	-.5	1.7
1972-----	5.2	.8	7.3	.1	-1.5	.2
1973-----	5.6	.7	8.5	.1	-2.2	-----

¹ Interest income, payments from general fund for noninsured persons and military service wage credits, and (for HI) payments from railroad retirement system.

² Administrative expenses and (for OASDI) payments to railroad retirement system.

TABLE 3.—ESTIMATED SHORT-RANGE PROGRESS OF TRUST FUNDS UNDER PROPOSAL

[In billions]

Fiscal year	Contribution income	Other income ¹	Benefit outgo	Other outgo ²	Net income	Fund at end of year
OASDI trust funds:						
1970-----	\$33.4	\$1.8	\$28.0	\$1.2	\$6.1	\$38.0
1971-----	34.7	2.1	31.6	1.3	3.9	41.9
1972-----	37.0	2.3	34.0	1.4	3.9	45.7
1973-----	40.8	2.6	35.2	1.4	6.8	52.6
HI trust fund:						
1970-----	4.7	.8	5.2	.1	.2	2.2
1971-----	6.0	1.1	6.2	.1	.7	2.9
1972-----	7.8	.9	7.3	.1	1.2	4.2
1973-----	8.6	1.0	8.5	.1	1.0	5.2

¹ Interest income, payments from general fund for noninsured persons and military service wage credits, and (for HI) payments from railroad retirement system.

² Administrative expenses and (for OASDI) payments to railroad retirement system.

Explanation of the Bill

STATEMENT OF SECRETARY OF HEALTH, EDUCATION, AND WELFARE ROBERT H. FINCH IN EXPLANATION OF THE PROPOSED FAMILY AS- SISTANCE ACT OF 1969

The family assistance plan is a revolutionary effort to reform a welfare system in crisis. With this program and the administration's proposed food stamp plan, the Federal Government launches a new strategy—an income strategy—to deal with our most critical domestic problems. For those among the poor who can become self-supporting, this strategy offers an avenue to greater income through expanded work incentives, training, and employment opportunities. For those who cannot work, there is a more adequate level of Federal support.

If the family assistance and food stamp proposals are enacted, we will have reduced the poverty gap in this country by some 59 percent. In other words, these two programs taken together will cut by almost 60 percent the difference between the total income of all poor Americans and the total amount they would have to earn in order to rise out of poverty. In one particular category of the poor, that of couples over 65 years of age, the family assistance plan will in fact raise recipients' incomes above the poverty line altogether. This income strategy includes an administration proposal for a 10-percent increase in social security benefits, coupled with an automatic cost of living escalator. This is a real war on poverty and not just a skirmish.

I. THE FAILURE OF WELFARE

In August 8 the President addressed the Nation and called the present welfare system a failure. He said:

"Whether measured by the anguish of the poor themselves, or by the drastically mounting burden on the taxpayer, the present welfare system has to be judged a colossal failure. * * *

"What began on a small scale in the depression 1930's has become a huge monster in the prosperous 1960's. And the tragedy is not only that it is bringing States and cities to the brink of financial disaster, but also that it is failing to meet the elementary human, social, and financial needs of the poor."

The failure of the system is most evident in the recent increases in welfare costs and caseloads. In this decade alone, total costs for the four federally aided welfare programs have more than doubled, to a level now of about \$6 billion.

In the aid for families with dependent children program (AFDC), costs have more than tripled since 1960 (to about \$4 billion at the present time) and the number of recipients has more than doubled (to some 6.2 million persons). Even more disturbing is the fact that the proportion of persons on AFDC is growing. In the 15 years since 1955, the proportion of children receiving assistance has doubled—from 30 children per 1,000 to about 60 per 1,000 at present.

Prospects for the future show no likelihood for relief from the present upward spiral. By conservative estimates, AFDC costs will double again by fiscal year 1975, and caseloads will increase by 50 to 60 percent. Yet, the great irony is that despite these crushing costs, benefits remain below adequate levels in most States.

Moreover, the present AFDC program is built to fail. It embodies a set of inequities which help to cause its own destruction. First, it is characterized by unjustifiable discrepancies as between regions of the country. With no national standards for benefit levels and eligibility practices, AFDC payments now vary from an average of \$39 per month for a family of four in Mississippi to \$263 for such a family in New Jersey.

Second, it is inequitable in its treatment of male-headed families as opposed to those headed by a female. In no State is a male-headed family, where the mother is also in the home and the father is working full time for poverty wages, eligible for AFDC. In half the States, even families headed by unemployed males are still not eligible under the AFDC-UF program. On the other hand, families in poverty headed by women working full or part time are almost universally covered. The result of this unfortunate discrimination is the creation of a powerful economic incentive for the father to leave home so that the State may better support his family than he can. For example, if a father employed full time in a low wage job is able to earn only \$2,000 per year, and welfare in the State would pay a fatherless family \$3,000 per year, his wife and children are financially 50 percent better off if he leaves home. And this financial incentive has taken its toll. In 1940, only 30 percent of the families on AFDC had absent fathers, but today the figure stands at over 70 percent.

Third, AFDC imposes inequities between those who work and those who do not. Because families in poverty headed by working men are not covered, it is easily possible for such a working family to be less well off than the welfare family. And what could be more debilitating to the motivation to work to see the opportunity for one's family to be better off on welfare? Moreover, the present system further undercuts the incentive to work by reducing welfare payments too rapidly and by too much as the head of the household begins to work.

II. THE FAMILY ASSISTANCE PLAN

This administration began its formal inquiries into welfare reform even before the inauguration. From the report of the transition task force on welfare to the present time, a number of reform proposals have been considered. The final result reflects the best efforts of many different people in and out of government and in different Federal agencies.

This analysis led us to the conclusion that revolutionary structural reform in the system is required. The first priority of the family assistance plan has been to remove, or at least minimize the inequities of present welfare policies. It is designed to strengthen family life and incentives for employment. This strategy may not pay off immediately, but unless this investment is made now, fundamental reform will be even more expensive in the future.

The family assistance plan provides fiscal relief for hard-pressed States and at the same time raises benefit levels for recipients in those

areas where they are lowest. Of the \$2.9 billion made available in new funds under the plan for benefits to families and to aged, blind and disabled adults, an estimated \$700 million will have the effect of providing fiscal relief for the States and about \$300 million will be for benefit increases for present recipients. But these goals, it must be said, cannot be our first priority at the present time. There are others who would invest more of our available resources in benefit increases or in a federalization of the program designed to provide maximum fiscal relief to the States. These are not easy priorities to weigh and balance, but we have concluded that—while those other approaches might be politically more popular in many respects—they only pour more Federal money into a system doomed to failure. The system must be changed, not just its payment levels or the division of labor between the Federal and State governments within it.

The technical operation of the family assistance plan is described in the attached summary. This memorandum will review its major purposes.

First, it combines powerful work requirements and work incentives for employable recipients. By including the working poor—families in poverty headed by men working full time—the new plan much reduces and in many cases eliminates the inequity of treatment between those who work and those who do not. Second, by making it possible for a family to earn \$60 per month without any reduction of benefits, a recipient will have a strong financial incentive to enter employment and will be able to recoup his expenses of going to work without a drop in total income. Third, the program includes a strong work requirement: those able-bodied persons who refuse a training or suitable job opportunity lose their benefits. For this reason, the program is not a guaranteed annual income. It does not guarantee benefits to persons regardless of their attitudes; its support is reserved to those who are willing to support themselves. The work requirement is made effective by a new obligation of work registration. In order to be eligible for benefits, applicants must first register with their employment service office so that training and job opportunities can be efficiently communicated to them. Mothers with children under 6 are, however, exempted from this requirement of work and work registration and may elect to stay at home with their children without any loss in benefits.

Second, the family assistance plan treats male and female-headed families equally. All families with children, whether headed by a male or female, will receive benefits if family income and resources are below the national eligibility levels. From this structural change in coverage flows one of the key advantages of the program in terms of family stability. No longer would an unemployed father have to leave the home for his family to qualify for benefits. In fact, the family is better off with him at home since its benefits are increased by his presence. And for employed men, the system greatly reduces and in some cases reverses the financial incentive to desert. In the example cited above of the father earning \$2,000 in a State where his family would receive \$3,000 on welfare, the family assistance plan would supplement his wages by \$960, giving the family \$2,960 in income and eliminating the financial incentive for the father to leave home.

Third, the program establishes a national minimum payment and national eligibility standards and methods of administration. For a dependent family of four, the Federal benefit floor will be \$1,600 per year. When benefits under the President's food stamp proposal are also taken into account, the assistance package for such a family is about \$2,350 per year, or more than two-thirds of the poverty line as it has been most recently redefined. This is not, of course, a sufficient amount to sustain an adequate level of life for those who have no other income; it is, nevertheless, a substantial improvement and can be made more adequate as budget conditions permit. As a result of the establishment of the Federal benefit floor of \$1,600, payment levels will be raised in 10 States and for about 20 percent of present recipients.

For the aged, blind, and disabled, a nationwide income floor would be set at \$90 per month per person of benefits plus other income. This comes on a yearly basis to \$2,160 for two persons, an amount which is actually above the poverty line for an aged couple. This represents an important change which we have made in the program since the President announced it on August 8, when the minimum for the adult categories was set at \$65.

Perhaps at least as important as the establishment of national minimum benefit levels, however, is the provision of national eligibility standards and administrative procedures to govern the family assistance and State supplementary payment programs. For the first time, a single set of rules will apply throughout the Nation, although the States will remain free to administer their supplementary payment programs under these uniform rules if they so desire. (The preexisting State standards of need and payment levels will still continue to control in the supplementary payment programs with regard to eligibility and amount of benefits.)

States will be given the option, for both the supplementary payment and the adult category programs, to contract with the Social Security Administration for Federal assumption of some or all of the administrative burdens under these programs. In this way, we should be able to move toward a single administrative mechanism for transfer payments, taking advantage of all the economies of scale which such an automated and nationally administered system can have. The eventual transfer of the food stamp program to the Department of Health, Education, and Welfare—as previously proposed by the administration—should further enhance this administrative simplification.

Fourth, the plan includes over \$600 million for a major expansion of training and day care opportunities. Some 150,000 new training opportunities will be funded under the legislation, which, when combined with the proposed Manpower Training Act in a simplified and decentralized framework, should greatly broaden the opportunities for self-support for recipients. Some 450,000 quality child care positions are also funded in a new and flexible program which further extends the administration's commitment to the first 5 years of life.

Fifth, the family assistance plan provides major fiscal relief for the States. An estimated \$700 million of the \$2.9 billion in new Federal money being made available for expanded cash assistance will go to the States in the form of savings on their existing welfare costs. For

5 years from the date of enactment, every State is assured fiscal relief at least equal to 10 percent of what its costs would have been under the old welfare program. When these savings are combined with the new money going to the States through the training and child care components and through the separate revenue sharing program, major relief for State governments is produced. In particular, by including the working poor within the family assistance plan, we are establishing a wholly Federal responsibility for a category of potential recipients which an increasing number of States are beginning to assist at their own initiative. Some seven States now have statewide programs of relief for the working poor and another eight States have local or experimental programs directed to these people—all entirely at State expense. By establishing a Federal program to cover the working poor, we are relieving the States of what seems to be the next likely increase in costs and coverage.

III. IMPACT ON OTHER PROGRAMS

The family assistance plan has a major impact on several other Federal programs bearing on the poor.

First, we have changed the treatment of unearned income compared to the present welfare system so that the recipient of family assistance benefits loses only 50 cents from his benefit for each dollar of unearned income received. This results in the elimination of an important inequity which, for example, would make a female-headed family of four ineligible for family assistance benefits if it received \$1,700 per year in alimony or support payments, but would pay that family a benefit if the husband were at home and earning \$1,700 per year. It also has an important impact on other Federal programs such as Old Age, Survivors and Disability Insurance, and Unemployment Insurance by eliminating the dollar-for-dollar loss in benefits under welfare as income from these other programs is received.

Second, this legislation amends title XIX (medicaid) to extend mandatory coverage under that program to the AFDC-UF category. It is not possible at this time to include the working poor adults in medicaid even though they are added to public assistance coverage under family assistance.

Third, family assistance has been carefully harmonized with the food stamp program. As has already been stated, the benefits under these two programs are additive, so that a family of four receives a package of family assistance and food stamp subsidies totaling about \$2,350. Moreover, the eligibility ceilings have been set at virtually the same point—\$4,000 for a family of four—and both programs would now extend coverage to the working poor.

Finally, certain changes in the programs of services for AFDC recipients under title IV of the Social Security Act are necessitated as a result of the family assistance plan. The Department of Health, Education, and Welfare will be submitting more comprehensive amendments on the service program shortly. These amendments will include an expanded program of assistance to the States for foster care. In the meantime, however, we are leaving the present AFDC services provisions intact and retaining the 75 percent Federal matching for the financing of these programs.

Summary of the Bill

SUMMARY OF PROPOSED FAMILY ASSISTANCE ACT OF 1969

TITLE I—FAMILY ASSISTANCE PLAN

ESTABLISHMENT OF PLAN

Section 101 of the bill adds new parts D, E, and F to title IV of the Social Security Act, establishing a new family assistance plan providing for payment of family assistance benefits by the Secretary of Health, Education, and Welfare and supplementary payments by the States.

Eligibility and amount

The new part D of title IV of the Social Security Act authorizes benefits to families with children payable at the rate of \$500 per year for each of the first two members of a family plus \$300 for each additional member.

The family assistance benefit would be reduced by nonexcluded income, so that families with more nonexcludable income than these benefits (\$1,600 for a family of four) would not be eligible for any benefits.

A family with more than \$1,500 in resources, other than the home, household goods, personal effects, and other property essential to the family's capacity for self-support, would also not be eligible.

Countable income would include both earned income (remuneration for employment and net earnings from self-employment) and unearned income.

In determining income the following would be excluded (subject, in some cases, to limitations by the Secretary) :

- (1) All income of a student;
- (2) Inconsequential or infrequent or irregular income;
- (3) Income needed to offset necessary child care costs while in training or working;
- (4) Earned income of the family at the rate of \$720 per year plus one-half the remainder;
- (5) Food stamps and other public assistance or private charity;
- (6) Special training incentives and allowances;
- (7) The tuition portion of scholarships and fellowships;
- (8) Home produced and consumed produce;
- (9) One-half of other unearned income.

Veterans pensions, farm price supports, and soil bank payments would not be excludable income to any extent and would, therefore, result in reduction of benefits on a dollar-for-dollar basis.

Eligibility for and amount of benefits would be determined quarterly on the basis of estimates of income for the quarter, made in the light of the preceding period's income as modified in the light of changes in circumstances and conditions.

Definition of family and child

To qualify for family assistance plan benefits a family must consist of two or more related individuals living in their own home and residing in the United States and one must be an unmarried child (i.e., under the age of 18, or under the age of 21 and regularly attending school).

Payment of benefits

Payment may be made to any one or more members of the qualified family. The Secretary would prescribe regulations regarding the filing of applications and supplying of data to determine eligibility of a family and the amounts for which the family is eligible. Beneficiaries would be required to report events or changes of circumstances affecting eligibility or the amount of benefits.

When reports by beneficiaries are delayed too long or are too inaccurate, part or all of the resulting benefit payments could be treated as recoverable overpayments.

Registration for work and referral for training

Eligible adult family members would be required to register with public employment offices for manpower services and training or employment unless they belong to specified excepted groups. However, a person in an excepted group may register if he wishes.

The exceptions are: (1) ill, incapacitated, or aged persons; (2) the caretaker relative (usually the mother) of a child under six; (3) the mother or other female caretaker of the child if an adult male (usually the father) who would have to register is there; (4) the caretaker for an ill household member; and (5) full-time workers.

Where the individual is disabled, referral for rehabilitation services would be made. Provision is also made for child care services to the extent the Secretary finds necessary in case of participation in manpower services, training, or employment.

Denial of benefits

Family assistance benefits would be denied with respect to any member of a family who refuses without good cause to register or to participate in suitable manpower services, training, or employment. If the member is the only adult, he would be included as a family member but only for purposes of determining eligibility of the family. Also, in appropriate cases, the remaining portion of the family assistance benefit would be paid to an interested person outside the family.

On-the-job training

The Secretary would transfer to the Department of Labor funds which would otherwise be paid to families participating in employer-compensated on-the-job training if they were not participating. These funds would be available to pay the training costs involved.

STATE SUPPLEMENTATION OF FAMILY ASSISTANCE BENEFITS

Required supplementation

The individual States would have to agree to supplement the family assistance benefits under a new part E of title IV of the Social Se-

curity Act wherever the family assistance benefit level is below the previously existing Aid to Families with Dependent Children (AFDC) payment level. This supplementation is a condition which the State must meet in order to continue to receive Federal payments with respect to maternal and child health and crippled children's services (title V) and with respect to their State plans for aid to the aged, blind, and disabled (title XVI), medical assistance (title XIX), and services to needy families with children (part A of title IV). Such "supplementation" would be required to families eligible for family assistance benefits other than families where both parents are present, neither is incapacitated, or the father is not unemployed. The States would thus be required to supplement in the case of individuals eligible under the old AFDC and AFDC-UF provisions; they would not have to supplement in case of the working poor.

Amount of supplementation

Except as indicated below and, except for use of the State standard of need and payment maximums, eligibility for and amount of supplementary payments would be determined by use of the rules applicable for family assistance benefits.

In applying the family assistance rules to the disregarding of income under the supplementary payment program—

(1) in the case of earned income of the family, the State would first disregard income at the rate of \$720 per year, and would then be permitted to reduce its supplementary payment by 16 $\frac{2}{3}$ cents for every dollar of earnings over the range of earnings between \$720 per year and the cutoff point for family assistance (i.e., \$3,920 for a family of four), and could further reduce its supplementary payments by an amount equal to not more than 80 cents for every dollar of earnings beyond that family assistance cutoff point.

(2) in the case of unearned income, these same percentage reductions would apply, although the initial \$720 exclusion would not apply.

Requirements for agreements

Some of the State plan requirements now applicable in the case of Aid and Services to Needy Families with Children would be made applicable to the agreement. These include the requirements relating to:

- (1) statewideness;
- (2) administration by a single State agency;
- (3) fair hearing to dissatisfied claimants;
- (4) methods of administration needed for proper and efficient operation, including personnel standards, training, and effective use of subprofessional staff;
- (5) reporting to Secretary as required;
- (6) confidentiality of information relating to applicants and recipients;
- (7) opportunity to apply for and prompt furnishing of supplementary payments.

Payments to States

A State agreeing to make the supplementary payments would be guaranteed that its expenditures for the first 5 full fiscal years after

enactment would be no more than 90 percent of the amount they would have been if the family assistance plan amendments had not been enacted. This would be accomplished by Federal payment to each State, for each year, of the excess of—

(1) the total of its supplementary payments for the year plus the State share of its expenditures called for under its existing State plan approved under title XVI plus the additional expenditures required by the new title XVI, over

(2) 90 percent of the State share of what its expenditures would have been in the form of maintenance payments for such year if the State's approved plans under titles I, IV(A), X, XIV, and XVI had continued in effect (assuming in the case of the part A of title IV plan, payments for dependent children of unemployed fathers).

On the other hand, any State spending less than 50 percent of the State share, referred to in clause (2) above, for supplementary payments and its title XVI plan would be required to pay the amount of the deficiency to the Federal treasury.

A State would also receive one-half of its cost of administration under its agreement.

ADMINISTRATION

Agreements with States

Sufficient latitude is provided to deal with the individual administrative characteristics of the States. Provision is made under which the Secretary can agree to administer and disburse the supplementary payments on behalf of the States. Similarly the States can agree to administer portions of the family assistance plan on behalf of the Secretary, with respect to all or specified families in the States.

Evaluation, research, training

The Secretary would make an annual report to Congress on the new family assistance plan, including an evaluation of its operation. He would also have authority to make periodic evaluations of its operation and to use part of the program funds for this purpose.

Research into and demonstrations of better ways of carrying out the purposes of the new plan, as well as technical assistance to the States and training of their personnel who are involved in making supplementary payments, would also be authorized.

Special provisions for Puerto Rico, the Virgin Islands, and Guam

There are special provisions for these areas under which the amount of family assistance benefits, the \$720 of earned income to be disregarded, and several other amounts under the family assistance plan and the new title XVI of the Social Security Act (aid to the aged, blind, and disabled) would be reduced to the extent that the per capita income of these areas is below that of that one of the 50 States which had the lowest per capita income.

TRAINING, EMPLOYMENT, AND DAY-CARE PROGRAMS

Section 102 of the administration bill would replace part C of title IV of the Social Security Act in its entirety.

Purpose

The purpose of the revised part C is to provide manpower services, training, and employment, and child care and related services for in-

dividuals eligible for the new family assistance plan benefits (new part D) or State supplementary payments (new part E) to help them secure or retain employment or advancement in employment. The intent is to do this in a manner which will restore families with dependent children to self-supporting, independent, and useful roles in the community.

Operation

The Secretary of Labor is required to develop an employability plan for each individual required to register under the new part D or receiving supplementary payments pursuant to the new part E. The plan would describe the manpower services, training, and employment to be provided and needed to enable the individual to become self-supporting or attain advancement in employment.

Allowances

The Secretary of Labor would pay an incentive training allowance of \$30 per month to each member of a family participating in manpower training. Where training allowances for a family under another program would be larger than their benefits under the family assistance plan and supplementary State payments, the incentive allowances for the family would be equal to the difference, or \$30 per member, whichever is larger.

Allowances for transportation and other expenses would also be authorized.

These incentive and other allowances would be in lieu of allowances under other manpower training programs.

Allowances would not be payable to individuals participating in employer compensated on-the-job training.

Denial of allowances

Allowances would not be payable to an individual who refuses to accept manpower training without good cause. The individual would receive reasonable notice and have an opportunity for a hearing if dissatisfied with the denial.

Utilization of other programs

In order to avoid the creation of duplicative programs, maximum use of authorities under other acts would be made by the Secretary of Labor in providing the manpower training and related services under the revised part C, but subject to all duties and responsibilities under such other programs. Part C appropriations could be used to pay the cost of services provided by other programs and to reimburse other public agencies for services they provided to persons under part C. The emphasis is on an integrated and comprehensive manpower training program involving all sectors of the economy and all levels of government to make maximum use of existing manpower and manpower-related programs.

Appropriations and administration

Appropriations to the Secretary of Labor would be authorized for carrying out the revised part C, including payment of up to 90 percent of the cost of training and employment services provided individuals registered under the family assistance plan. The Secretary would seek to achieve equitable geographical distribution of these funds.

In developing policies and programs for manpower services, training and employment for individuals registered under the family assistance plan, the Secretary of Labor would have to first obtain the concurrence of the Secretary of Health, Education, and Welfare with regard to all programs under the usual and traditional authority of the Department of Health, Education, and Welfare.

Child care and support services

Appropriations to the Secretary of Health, Education, and Welfare would be authorized for grants and contracts for up to 90 percent of the cost of projects for child care and related services for persons registered under the family assistance plan and in manpower training or employment. The grants would go to any public or nonprofit private agency or organization, and the contracts could be with any public or private agency or organization. The cost of these services could include alteration, remodeling, and renovation of facilities, but no provision is made for wholly new construction. The Secretary of Health, Education, and Welfare could allow the non-Federal share of the cost to be provided in the form of services or facilities.

These provisions (unlike other provisions of the bill) would become effective on enactment of the bill.

Advance funding

To afford adequate notice of available funds, appropriations for 1 year to pay the cost of the program during the next year would be authorized.

Evaluation and research

A continuing evaluation of the program under part C and research for improving it are authorized.

Annual report and Advisory Council

The Secretary of Labor is required to report annually to Congress on the manpower training and related services.

ELIMINATION OF PRESENT PROVISIONS ON CASH ASSISTANCE FOR FAMILIES WITH DEPENDENT CHILDREN

Section 103 of the bill revises part A of title IV of the Social Security Act which relates to cash assistance and services for needy families with children. The new part A is called services to needy families with children, reflecting the elimination of the provisions on cash assistance. The cash assistance part is no longer necessary because of the family assistance plan in the new part D of title IV.

The revised part A provides for continuation of the present program of services for these families. Foster care for children and emergency assistance, as included under existing law, are also continued.

Requirements for State plans

Section 402 of the Social Security Act which sets forth the requirements to be met by State plans before they are approved and qualify the State for Federal financial participation in expenditures, would be revised as appropriate in the light of the elimination of the cash assistance provisions.

Payments to States

The provisions on payments to States for expenditures under approved State plans remain the same as existing law with respect to services, emergency assistance, and foster care. The matching formulas continue to vary, as in existing law, according to the kinds of services involved.

Definitions

The definitions of "family services" and "emergency assistance to needy families with children" have not been substantially changed.

The definitions of "dependent child", "aid to families with dependent children", and "relative with whom any dependent child is living" have been replaced (as no longer applicable) by definitions of—

(1) "child"—which refers to the definition in the new part D, establishing the family assistance plan; this in effect substitutes a requirement that the child be a member of a "family" (as defined in the new part D) instead of having to live with particularly designated relatives;

(2) "needy families with children" (and "assistance to such families")—this being defined as families receiving family assistance benefits under the new part D, if they are also receiving supplementary State payments pursuant to the new part E or would have been eligible for aid under the existing State plan for aid to needy families with children if it had continued in effect.

Foster care and emergency assistance

The provisions on payments for foster care of children and emergency assistance remain virtually the same as under existing law.

Assistance by Internal Revenue Service in locating parents

The provision on this subject remains the same and allows use of the master files of the Internal Revenue Service to locate missing parents in certain cases.

TITLE II—AID TO THE AGED, BLIND, AND DISABLED

This title revises the current title XVI of the Social Security Act and sets forth the revised title XVI in its entirety. One of the major changes is the removal of the provisions relating to medical assistance for the aged which, under existing law, would terminate at the end of calendar 1969. All medical assistance for which the Federal Government shares costs will now be provided under approved title XIX State plans.

Requirements for State plans

Few changes are made in this section (sec. 1602), aside from deleting the provisions relating to medical assistance for the aged. The section retains, without substantial change, the requirements relating to—

- (1) administration by a single State agency (except where a separate agency is permitted for the blind as under existing law);
- (2) financial participation by the State;
- (3) statewideness;

- (4) opportunity for fair hearing;
- (5) methods of administration, including personnel standards, training, and effective use of subprofessional staff;
- (6) reporting to the Secretary as required;
- (7) confidentiality of information relating to recipients;
- (8) opportunity for application and furnishing of assistance with reasonable promptness;
- (9) establishment and maintenance by the State of standards for institutions in which there are individuals receiving aid;
- (10) description of services provided for self-support or self-care; and
- (11) determination of blindness by an ophthalmologist or an optometrist.

The present prohibition against payment to persons in receipt of assistance under title I, IV, X, or XIV would be applicable instead to cases of receipt of family security benefits under the new part D of title IV.

The provision on inclusion of reasonable standards for determining eligibility and amount of aid would be replaced by one requiring a minimum benefit of \$90 per month, less any other income, and by another requiring that the standard of need not be lower than the standard applied under the State plan approved under the existing title XVI or (in case the State had not had such a plan) the appropriate one of the standards of need applied under the plans approved under titles I, X, and XIV.

While the requirement relating to the determination of need and disregarding of certain income in connection therewith has been continued (although without the authorization to disregard \$7.50 per month of any income, in addition to other income which may or must be disregarded), it has been expanded in a manner parallel to family assistance benefits to include disregarding as resources the home, household goods, personal effects, other property which might help to increase the family's ability for self-support, and, finally, any other personal or real property the total value of which does not exceed \$1,500. There would also be a new requirement for not considering the financial responsibility of any other individual for the applicant or recipient unless the applicant is the individual's spouse or child under the age of 21 or blind or severely disabled, and a prohibition against imposition of liens on account of benefits correctly paid to recipients.

Other new requirements relate to provision for the training and effective use of social service personnel, provision of technical assistance to State agencies and local subdivisions furnishing assistance or services, and provision for the development, through research or demonstrations, of new or improved methods of furnishing assistance or services. Also added is a requirement for use of a simplified statement for establishing eligibility and for adequate and effective methods of verification thereof. Finally, there are new requirements for periodic evaluation of the State plan at least annually, with reports thereof being submitted to the Secretary together with any necessary modifications of the State plan; for establishment of advisory committees, including recipients as members; and for observing priorities and performance standards set by the Secretary in the administration of the State plan and in providing services thereunder.

The present prohibitions against any age requirement of more than 65 years and against any citizenship requirement excluding U.S. citizens would be continued.

In place of the present provision on residency, there is a new one which prohibits any residency requirement excluding any resident of the State. Also there would be new prohibitions against any disability or age requirement which excludes a severely disabled individual aged 18 or older, and any blindness or age requirement which excludes any person who is blind (determined under criteria by the Secretary).

Payments

In place of the present provision on the Federal share of expenditures under the approved State plan there is a new formula which provides for payment as follows with respect to expenditures under State plans for aid to the aged, blind, and disabled approved under the new title XVI:

With respect to cash assistance, the Federal Government will pay (1) 100 percent of the first \$50 per recipient, plus (2) 50 percent of the next \$15 per recipient, plus (3) 25 percent of the balance of the payment per recipient which does not exceed the maximum permissible level of assistance per person set by the Secretary (which may be lower in the case of Puerto Rico, the Virgin Islands, and Guam than for other jurisdictions).

With respect to services for which expenditures are made under the approved State plan, the Federal Government would pay the same percentages as are provided under existing law, that is, 75 percent in the case of certain specified services and training of personnel and 50 percent in the case of the remainder of the cost of administration of the State plan.

Payment by Federal Government to individuals

The revised title XVI includes authority for the Secretary to enter into agreements with any State under which the Secretary will make the payments of aid to the aged, blind, and disabled directly to individuals in the State who are eligible therefor. In that case, the State would reimburse the Federal Government for the State's share of those payments and for one-half the additional cost to the Secretary of carrying out the agreement, other than the cost of making the payments themselves.

Definition

The new title XVI defines aid to the aged, blind, and disabled as money payments to needy individuals who are 65 or older or are blind or are severely disabled.

Transitional and related provisions

Titles I, X, and XIV of the Social Security Act would be repealed.

Provision is made for making adjustments under the new title XVI on account of overpayments and underpayments under the existing public assistance titles.

Provision is also made for according States a grace period during which they can be eligible to participate in the new title XVI without changing their tests of disability or blindness. The grace period would end for any State with the June 30 following the close of the first

regular session of its State legislature beginning after enactment of the bill.

Conforming amendments

The bill also contains a number of conforming amendments in other provisions of the Social Security Act in order to take account of the substantive changes made by the bill. Thus, the changes in the medic-aid program (title XIX of the Social Security Act) would require the States to cover individuals eligible for supplementary State payments pursuant to the new part E of title IV or who would be eligible for cash assistance under an existing State plan for aid to families with dependent children if it continued in effect and included dependent children of unemployed fathers.

Effective date

The amendments made by the bill would become effective on the first January 1 following the fiscal year in which the bill is enacted. However, if a State is prevented by statute from making the supplementary payments provided for under the new part E of title IV of the Social Security Act, the amendments would not apply to individuals in that State until the first July 1 which follows the end of the State's first regular session of its legislature beginning after the enactment of the bill—unless the State certified before this date that it is no longer prevented by State statute from making the payments. In the latter case the amendments would become effective at the beginning of the first calendar quarter following the certification.

Also, in the case of a State which is prevented by statute from meeting the requirements in the revised section 1602 of the Social Security Act, the amendments made in that title would not apply until the first July 1 following the close of the State's first regular session of its legislature beginning after the enactment of the bill—unless the State submitted before this date a State plan meeting these requirements. In the latter case the amendments would become effective on the date of submission of the plan.

Another exception to this effective date provision is made in the case of the new authorization, in the revised part C of title IV of the Social Security Act, for provision of child care services for persons undergoing training or employment—which would be effective on enactment of the bill.

PROPOSED WELFARE REFORM BILL

A BILL To authorize a family assistance plan providing basic benefits to low-income families with children, to provide incentives for employment and training to improve the capacity for employment of members of such families, to achieve greater uniformity of treatment of recipients under the Federal-State public assistance programs and to otherwise improve such programs, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act, with the following Table of Contents, may be cited as the "Family Assistance Act of 1969".

FINDINGS AND DECLARATION OF PURPOSE

SEC. 2. (a) The Congress hereby finds and declares that—

(1) the present federally assisted welfare program provides benefits which vary widely throughout the country and which are unconscionably low in many States;

(2) the program for needy families with children is often administered in ways which are costly, inefficient, and degrading to personal dignity, and is characterized by intolerable incentives for family breakup, by inadequate encouragements to and opportunities for those on the welfare rolls to enter job training and employment so that they may become self-supporting, and by the inequitable exclusion from assistance of working families in poverty, especially families headed by a male;

(3) the growth of the welfare rolls threatens the fiscal stability of the States and the Federal-State partnership; and

(4) in the light of the harm to individual and family development and well-being caused by lack of income adequate to sustain a decent level of life, and the consequent damage to the human resources of the entire Nation, the Federal Government has a positive interest and responsibility in assuring the correction of these problems.

(b) It is therefore the purpose of this Act to fulfill the responsibility of the Federal Government to expand the training and employment incentives and opportunities, including necessary child care services, for those public assistance recipients who are members of needy families with children and who can become self-supporting; to provide a more adequate level and quality of living through income support and services for dependent persons and families who, through no fault of their own, require public assistance; to provide this financial assistance in a manner designed to strengthen family life and to establish more nearly uniform national standards of eligibility and aid; and to move to greater assumption by the Federal Government of the financial burden of these activities.

TITLE I—FAMILY ASSISTANCE PLAN

ESTABLISHMENT OF FAMILY ASSISTANCE PLAN

SEC. 101. Title IV of the Social Security Act (42 U.S.C. 601, et seq.) is amended by adding after part C the following new parts:

“PART D—FAMILY ASSISTANCE PLAN

“APPROPRIATIONS

“SEC. 441. For the purposes of providing a basic level of financial assistance throughout the Nation to needy families with children, in a manner which will strengthen family life, encourage work training and self-support, and enhance personal dignity, there is authorized to be appropriated for each fiscal year a sum sufficient to carry out this part.

“ELIGIBILITY FOR AND AMOUNT OF FAMILY ASSISTANCE BENEFITS

“Eligibility

“SEC. 442. (a) Each family, as defined in section 445—

“ (1) whose income, other than income which is excluded pursuant to section 443, is less than \$500 per year for each of the first 2 members of the family plus \$300 per year for each additional member, and

“ (2) whose resources, other than resources excluded pursuant to section 444, are less than \$1,500.

shall, in accordance with and subject to the other provisions of this title, be a paid family assistance benefit.

“Amount

“(b) The family assistance benefit for a family shall be payable at the rate of \$500 per year for each of the first two members of the family plus \$300 per year for each additional member thereof, reduced by the amount of income, not excluded pursuant to section 443, of the members of the family.

“Puerto Rico, the Virgin Islands, and Guam

“(c) For special provisions applicable to Puerto Rico, the Virgin Islands, and Guam, see section 464.

“Period for Determination of Benefits

“(d) (1) A family's eligibility for and its amount of family assistance benefits shall be determined for each quarter of a calendar year. Such determination shall be made on the basis of the Secretary's estimate of the family's income for such quarter, after taking into account income for a preceding period and any modifications in income which are likely to occur on the basis of changes in conditions or circumstances. Eligibility for and the amount of benefits of a family for any quarter shall be redetermined at such time or times as may be provided by the Secretary, such determination to be effective prospectively.

"(2) The Secretary shall by regulation prescribe the cases in which and extent to which the amount of a family assistance benefit for any quarter shall be reduced by reason of the time elapsing since the beginning of such quarter and before the date of filing of the application for the benefit.

"(3) The Secretary may, in accordance with regulations, prescribe the cases in which and the extent to which income received in one period (or expenses incurred in one period in earning income) shall, for purposes of determining eligibility for and amount of family assistance benefits, be considered as received (or incurred) in another period or periods.

"Special Limits on Gross Income

"(e) The Secretary may, in accordance with regulations, prescribe the circumstances under which the gross income from a trade or business (including farming), will be considered sufficiently large to make such family ineligible for such benefits.

"INCOME

"Exclusions from Income

"SEC. 443. (a) In determining the income of a family there shall be excluded—

"(1) subject to limitations (as to amount or otherwise) prescribed by the Secretary, the earned income of each child in the family who is, as determined by the Secretary under regulations, a student regularly attending a school, college, or university, or a course of vocational or technical training designed to prepare him for gainful employment;

"(2) (A) the total unearned income of all members of a family which is, as determined in accordance with criteria prescribed by the Secretary, too inconsequential, or received too infrequently or irregularly, to be included, and (B) subject to limitations prescribed by the Secretary any earned income which, as determined in accordance with such criteria, is received too infrequently or irregularly to be included;

"(3) an amount of earned income of a member of the family equal to all, or such part (and according to such schedule) as the Secretary may prescribe, of the cost incurred by such member for child care which the Secretary deems necessary to securing or continuing in manpower training, vocational rehabilitation, employment, or self-employment.

"(4) the first \$720 per year (or proportionately smaller amounts for shorter periods) of the total of earned income (not excluded by the preceding clauses of this section) of all members of the family plus one-half of the remainder thereof;

"(5) food stamps or any other assistance which is based on need and furnished by any State or political subdivision of a State or any Federal agency or by any private charitable agency or organization (as determined by the Secretary);

"(6) allowances under section 432(a);

“(7) any portion of a scholarship or fellowship received for use in paying the cost of tuition and fees at any educational (including technical or vocational education) institution;

“(8) home produce of a member of the family utilized by the household for its own consumption; and

“(9) one-half of all unearned income (not excluded by the preceding clauses of this subsection) of all members of the family

The preceding provisions of this subsection shall not apply to veterans' pensions or to payments to farmers for price support, diversion, or conservation. For special provisions applicable to Puerto Rico, the Virgin Islands, or Guam, see section 464.

“Meaning of Earned and Unearned Income

“(b) For purposes of this part—

“(1) earned income shall include only—

“(A) remuneration for employment, other than remuneration to which section 209 (b), (c), (d), (f), or (k) applies;

“(B) net earnings from self-employment, as defined in section 211 other than the second and third sentences following clause (C) of subsection (a) (9) and other than clauses (A), (C), and (E) of paragraph (2) and paragraphs (4), (5), and (6), of subsection (c);

“(2) unearned income shall include among other things—

“(A) any payments received as an annuity, pension, retirement, or disability benefit, including veteran's or workmen's compensation and old-age, survivors, and disability insurance, railroad retirement, and unemployment benefits;

“(B) prizes and awards;

“(C) the proceeds of any life insurance policy;

“(D) gifts (cash or otherwise), support and alimony payments, and inheritances; and

“(E) rents, dividends, interest, and royalties.

“RESOURCES

“Exclusions from Resources

“SEC. 444. (a) In determining the resources of a family there shall be excluded:

“(1) the home, household goods, and personal effects;

“(2) other property which, as determined in accordance with and subject to limitations in regulations of the Secretary, is so essential to the family's means of self-support as to warrant its exclusion.

“Disposition of Resources

“(b) The Secretary shall prescribe regulations applicable to the period or periods of time within which, and the manner in which, various kinds of property must be disposed of in order not to be included in determining the family's eligibility for family assistance benefits. Any portion of the family's benefits paid for such period or periods shall be conditioned on such disposal.

“MEANING OF FAMILY AND CHILD

“Composition of Family

“SEC. 445. (a) Two or more individuals—

“(1) who are related by blood, marriage, or adoption,

“(2) who are living in a place of residence maintained by one or more of them as his or her own home,

“(3) who are residents of the United States, and

“(4) at least one of whom is a child who is not married to another of such individuals,

shall be regarded as a family for purposes of this part and parts A, C, and E.

“Definition of Child

“(b) For purposes of this part and parts C and E, the term ‘child’ means an individual who is (1) under the age of 18 or (2) under the age of 21 and (as determined by the Secretary under regulations) a student regularly attending a school, college, or university, or a course of vocational or technical training designed to prepare him for gainful employment.

“Members of the Armed Forces

“(c) If an individual is in the Armed Forces of the United States, then, for purposes of determining eligibility for and the amount of family assistance benefits under this part, (1) he shall not be regarded as a member of a family, and (2) the spouse and children of such individual, and such other individuals living in the same place of residence as such spouse and children as may be specified in accordance with regulations of the Secretary, shall not be considered members of a family.

“Determination of Family Relationship

“(d) In determining whether an individual is related by blood, marriage, or adoption, appropriate State law, as determined in accordance with regulations of the Secretary, shall be applied.

“Income and Resources of Noncontributing Adult

“(e) For purposes of determining eligibility for and the amount of family assistance benefits for any family there shall be excluded the income and resources of any individual, other than a child or a parent of a child (or a spouse of a child or parent), which, as determined in accordance with criteria prescribed by the Secretary, is not available to other members of the family; and for such purposes, any such individual shall not be considered a member of such family.

“Recipients of Aid to the Aged, Blind, and Disabled Ineligible

“(f) If any individual is receiving aid to the aged, blind and disabled under a State plan approved under title XVI, or if his needs are taken into account in determining the need of another person receiving such aid, then, for the period for which such aid is received, such individual shall not be regarded as a member of a family for

purposes of determining the amount of the family assistance benefits of the family.

"PAYMENTS AND PROCEDURES

"Payments of Benefits

"SEC. 446. (a) (1) Family assistance benefits shall be paid at such time or times and in such installments as the Secretary determines will best effectuate the purposes of this title.

(2) Payment of the family assistance benefit of any family may be made to any one or more members of the family.

"(3) The Secretary may by regulation establish ranges of incomes within which a single amount of family assistance benefit shall apply.

"Overpayments and Underpayments

"(b) Whenever the Secretary finds that more or less than the correct amount of family assistance benefits has been paid with respect to any family, proper adjustment or recovery shall, subject to the succeeding provisions of this subsection, be made by appropriate adjustments in future payments of the family or by recovery from or payment to any one or more of the individuals who are or were members thereof. The Secretary shall make such provision as he finds appropriate in the case of payment of more than the correct amount of benefits with respect to a family with a view to avoiding penalizing members of the family who were without fault in connection with the overpayment, if adjustment or recovery on account of such overpayment in such case would defeat the purposes of this part, or be against equity or good conscience, or (because of the small amount involved) impede efficient or effective administration of this part.

"Hearings and Review

"(c) (1) The Secretary shall provide reasonable notice and opportunity for a hearing to any individual who is or claims to be a member of a family and is dissatisfied with any determination under this part with respect to eligibility of the family for family assistance benefits, the number of members of the family, or the amount of the benefits.

"(2) Final determination of the Secretary after such hearings shall be subject to judicial review as provided in section 205(g) to the same extent as the Secretary's final determinations under section 205.

"Procedures; Prohibition of Assignments

"(d) The provisions of sections 206 and 207 and subsections (a), (d), (e), and (f) of section 205 shall apply with respect to this part to the same extent as they apply in the case of title II.

"Applications and Furnishing of Information by Families

"(e) (1) The Secretary shall prescribe regulations applicable to families or members thereof with respect to the filing of applications, the furnishing of other data and material, and the reporting of events and changes in circumstances, as may be necessary to determine eligibility for and amount of family assistance benefits.

“(2) In order to encourage prompt reporting of events and changes in circumstances relevant to eligibility for or amount of family assistance benefits, and more accurate estimates of expected income or expenses by members of families for purposes of such eligibility and amount of benefits, the Secretary may prescribe the cases in which and the extent to which—

“(A) failure to so report or delay in so reporting, or

“(B) inaccuracy of information which is furnished by the members and on which the estimates of income or expenses for such purposes are based,

will result in treatment as overpayments of all or any portion of payments of such benefits for the period involved.

“Furnishing of Information by Other Agencies

“(f) The head of any Federal agency shall provide such information as the Secretary needs for purposes of determining eligibility for or amount of family assistance benefits, or verifying other information with respect thereto. The Secretary may from time to time pay to the head of such agency, in advance or by way of reimbursement, as may be agreed upon, the cost of providing such information.

“REGISTRATION AND REFERRAL OF FAMILY MEMBERS FOR MANPOWER SERVICES, TRAINING, AND EMPLOYMENT

“SEC. 447. (a) Every individual who is a member of a family which is found to be eligible for family assistance benefits, other than a member to whom the Secretary finds clause (1), (2), (3), (4), (5), or (6) of subsection (b) applies, shall register for manpower services, training, and employment with the local public employment office of the State as provided by regulations of the Secretary of Labor. If and for so long as any such individual is found by the Secretary of Health, Education, and Welfare to have failed (after a reasonable period of time), without good cause as determined by the Secretary of Labor, to so register, he shall not be regarded as a member of a family but his income which would otherwise be counted under this part as income of a family shall be so counted; except that if such individual is the only member of the family other than a child, such individual shall be regarded as a member for purposes of determination of the family's eligibility for family assistance benefits, but not (except for counting his income) for purposes of determination of the amount of such benefits. No part of the family assistance benefits of any such family may be paid to such individual during the period for which the preceding sentence is applicable to him; and the Secretary may, if he deems it appropriate, provide for payment of such benefits during such period to any person, other than a member of such family, who is interested in or concerned with the welfare of the family.

“(b) An individual shall not be required to register pursuant to subsection (a) if the Secretary determines that such individual is:

“(1) ill, incapacitated, or of an advanced age;

“(2) a mother or other relative of a child under the age of 6 who is caring for such child;

"(3) the mother, or other female caretaker of a child, if the father or another adult male relative is in the home and not excluded by clauses (1), (2), (4), or (5) of this subsection;

"(4) a child,

"(5) one whose presence in the home on a substantially continuous basis is required because of the illness or incapacity of another member of the household;

"(6) working full time, as determined in accordance with criteria prescribed by the Secretary of Labor.

An individual who would, but for the preceding sentence, be required to register pursuant to part A, may, if he wishes, register as provided in such subsection.

"(c) The Secretary shall make provision for the furnishing of child care services in such cases and for so long as he deems appropriate in the case of individuals registered pursuant to subsection (a) who are, pursuant to such registration, participating in manpower services, training, or employment.

"(d) In the case of any member of a family receiving family assistance benefits who is not required to register pursuant to subsection (a) because of such member's disability or handicap, the Secretary shall make provision for referral of such member to the appropriate State agency administering or supervising the administration of the State plan for vocational rehabilitation services approved under the Vocational Rehabilitation Act.

"DENIAL OF BENEFITS IN CASE OF REFUSAL OF MANPOWER
SERVICES, TRAINING, OR EMPLOYMENT

"SEC. 448. For purposes of determining eligibility for and amount of family assistance benefits under this part, an individual who has registered as required under section 447(a) shall not be regarded as a member of a family, but his income which would otherwise be counted as income of the family under this part shall be so counted, if and for so long as he has been found by the Secretary of Labor, after reasonable notice and opportunity for hearing, to have refused without good cause to participate in suitable manpower services, training, or employment, or to have refused without good cause to accept suitable employment in which he is able to engage which is offered through the public employment offices of the State, or is otherwise offered by an employer if the offer of such employer is determined by the Secretary of Labor, after notification by such employer or otherwise, to be a bona fide offer of employment; except that if such individual is the only member of the family other than a child, such individual shall be regarded as a member of the family for purposes of determination of the family's eligibility for benefits, but not (except for counting his income) for the purposes of determination of the amount of its benefits. No part of the family assistance benefits of any such family may be paid to such individual during the period for which the preceding sentence is applicable to him; and the Secretary may, if he deems it appropriate, provide for payment of such benefits during such period to any person, other than a member of such family, who is interested in or concerned with the welfare of the family.

"TRANSFER OF FUNDS FOR ON-THE-JOB TRAINING PROGRAMS

"SEC. 449. The Secretary shall, pursuant to and to the extent provided by agreement with the Secretary of Labor, pay to the Secretary of Labor amounts which he estimates would be paid as family assistance benefits under this part to individuals participating in public or private employer compensated on-the-job training under a program of the Secretary of Labor if they were not participating in such training. Such amounts shall be available to pay the costs of such programs.

"PART E—STATE SUPPLEMENTATION OF FAMILY ASSISTANCE BENEFITS

"PAYMENTS UNDER TITLES IV, V, XVI, AND XIX CONDITIONED ON
SUPPLEMENTATION

"SEC. 451. In order for a State to be eligible for payments pursuant to title V, XVI, or XIX or, part A or B of this title, with respect to expenditures for any quarter beginning on or after the date this part becomes effective with respect to such State, it must have in effect an agreement with the Secretary under which it will make supplementary payments, as provided in this part, to any family other than a family in which both parents of the child or children are present, neither parent is incapacitated, and the male parent is not unemployed.

"AMOUNT OF SUPPLEMENTARY PAYMENTS

"SEC. 452. (a) Eligibility for and amount of supplementary payments under the agreement with any State under this part shall, subject to the succeeding provisions of this section, be determined by application of the provisions of, and rules and regulations under, section S. 442 (a) (2) and (d), 443, 444, 445, 446 (to the extent the Secretary deems appropriate), 447, and 448, and by application of the standard for determining need under the plan of such State as in effect for July 1969 and complying with the requirements for approval under part A as in effect on such date (but subject to such maximums and percentage reductions as were imposed under such plan on the amount of aid paid and, then, with the resulting amount of the supplementary payment to any individual further reduced by the family assistance benefit payable under part D with respect to him).

"(b) In applying the provisions of section 443 for purposes of supplementary payments pursuant to an agreement under this part—

"(1) in the case of earned income to which clause (4) of subsection (a) of such section 443 applies, the amount to be disregarded shall be \$720 per year (or proportionately smaller amounts for shorter periods), plus—

"(A) one-third of the portion of the remainder of earnings which does not exceed twice the amount of the family assistance benefits that would be payable to the family if it had no income (thereby resulting in reduction of the supplementary payment by one-sixth of that portion of such remainder of the earnings), plus

"(B) one-fifth (or more if the Secretary by regulation so prescribes) of the balance of the earnings (thereby resulting in further reduction of the supplementary payment by four-

fifths, or proportionately less if the Secretary has prescribed such a regulation, of that balance of the earnings); and

“(2) in the case of income to which clause (9) of subsection (a) of such section 443 applies, the amount to be disregarded shall be—

“(A) one-third of such income which does not exceed twice the amount of the family assistance benefits that would be payable to the family if it had no income (thereby resulting in reduction of the supplementary payment by one-sixth of that portion of such income), plus

“(B) one-fifth (or more if the Secretary by regulation so prescribes) of the balance of such income (thereby resulting in further reduction of the supplementary payment by four-fifths, or proportionately less if the Secretary has prescribed such a regulation, of that balance of the income); and

“(3) the family assistance benefit of a family payable under part D shall not be counted to any extent.

For special provisions applicable to Puerto Rico, the Virgin Islands, and Guam, see section 464.

“(c) The agreement with a State under this part shall—

“(1) provide that it shall be in effect in all political subdivisions of the State;

“(2) provide for the establishment or designation of a single State agency to carry out or supervise the carrying out of the agreement in the State;

“(3) provide for granting an opportunity for a fair hearing before the State agency carrying out the agreement to any individual whose claim for supplementary payments is denied or is not acted upon with reasonable promptness;

“(4) provide (A) such methods of administration (including methods relating to the establishment and maintenance of personnel standards on a merit basis, except that the Secretary shall exercise no authority with respect to the selection, tenure of office, and compensation of any individual employed in accordance with such methods) as are found by the Secretary to be necessary for the proper and efficient operation of the agreement in the State, and (B) for the training and effective use of paid subprofessional staff, with particular emphasis on the full-time or part-time employment of recipients of supplementary payments and other persons of low income, as community services aides, in carrying out the agreement and for the use of nonpaid or partially paid volunteers in a social service volunteer program in providing services to applicants for and recipients of supplementary payments and in assisting any advisory committees established by the State agency;

“(5) provide that the State agency carrying out the agreement will make such reports, in such form and containing such information, as the Secretary may from time to time require, and comply with such provisions as the Secretary may from time to time find necessary to assure the correctness and verification of such reports;

“(6) provide safeguards which restrict the use or disclosure of information concerning applicants for and recipients of sup-

plementary payments to purposes directly connected with the administration of this title; and

“(7) provide, that all individuals wishing to make application for supplementary payments shall have opportunity to do so, and that supplementary payments shall be furnished with reasonable promptness to all eligible individuals.

“PAYMENTS TO STATES

“SEC. 453. (a) (1) The Secretary shall pay to any State which has in effect an agreement under this part for any fiscal year in the period ending with the close of the fifth full fiscal year for which this part is effective with respect to such State the excess of—

“(A) (i) the total of its payments for such year pursuant to its agreement under this part which are required under section 452, plus (ii) the difference between (I) the total of the expenditures for such fiscal year under its plan approved under title XVI as aid to the aged, blind, and disabled which would have been included as aid to the aged, blind, or disabled under the plan approved thereunder and in effect for July 1969, plus so much of the rest of such expenditures as are required (as determined by the Secretary) by reason of the amendments to such title made by the Family Assistance Act of 1969 and (II) the total of the amounts determined under section 1604 for such State with respect to such expenditures for such year, over

“(B) 90 per centum of the difference between (i) the total of the expenditures which would have been made as aid or assistance (excluding emergency assistance specified in section 406 (e) (1) (A), foster care under section 408, expenditures for institutional services in intermediate care facilities referred to in section 1121, expenditures for repairs to homes referred to in section 1119, and aid or assistance in the form of medical care or any other type of remedial care) for such year under the plans of such State approved under titles I, IV (part A), X, XIV, and XVI and in effect in the month prior to the enactment of this part if they had continued in effect during such year and if they had included (if they did not already do so) payments to dependent children of unemployed fathers authorized by section 407 (as in effect on July 1, 1969), and (ii) the total of the amounts which would have been determined under sections 3, 403, 1003, 1403, and 1603, or under section 1118, of such State with respect to such expenditures for such year.

The Secretary may prescribe methods for determining the amounts referred to in clause (B) on the basis of estimates and trends in expenditures and other experience of the State for prior years.

“(2) The Secretary shall also pay to each such State an amount equal to 50 per centum of its administrative costs found necessary by the Secretary for carrying out its agreement.

“(b) Payments under subsection (a) shall be made at such time or times, in advance or by way of reimbursement, and in such installments as the Secretary may determine; and shall be made on such conditions as may be necessary to assure the carrying out of the purposes of this title.

“(c) In the case of any State with respect to which the amount determined under clause (A) of subsection (a) (1) for any year is less than 50 per centum of the difference referred to in clause (B) of such subsection for such year, such State shall pay to the Secretary, at such time or times and in such installments as he may prescribe, the sum by which such amount determined under clause (A) of subsection (a) (1) is less than such 50 per centum. If such State does not pay any part of such amount at the time or times prescribed, the Secretary shall withhold such part from sums to which the State is entitled under part A or B of this title or under title V, XVI, or XIX; but the amounts so withheld shall be deemed to have been paid to the State under such part or title. The withholding of amounts pursuant to the preceding sentence shall be effected at such time or times and in such installments as the Secretary may deem appropriate.

“FAILURE BY STATE TO COMPLY WITH AGREEMENT

“SEC. 454. If the Secretary, after reasonable notice and opportunity for hearing to a State with which he has an agreement under this part, finds that such State is failing to comply therewith, he shall withhold all, or such portion as he deems appropriate, of the payments to which such State is otherwise entitled under part A or B of this title or under title V, XVI, or XIX; but the amounts so withheld shall be deemed to have been paid to the State under such part or title. Such withholding shall be effected at such time or times and in such installments as the Secretary may deem appropriate.

“PART F—ADMINISTRATION

“AGREEMENTS WITH STATES

“SEC. 461. (a) The Secretary may enter into an agreement with any State under which the Secretary will make, on behalf of the State, the supplementary payments provided for pursuant to part E or will perform such other functions of the State in connection with such payments as may be agreed upon. In any such case, the agreement shall also provide for payment by the State to the Secretary of an amount equal to the supplementary payments the State would otherwise make under part E, less any payments which would be made to the State under section 453 (a), together with one-half of the additional cost of the Secretary involved in carrying out such agreement, other than the cost of making the payments.

“(b) The Secretary may also enter into an agreement with any State under which such State will make, on behalf of the Secretary, the family assistance benefit payments provided for under part D with respect to all or specified families in the State who are eligible for such benefits or will perform such other functions in connection with the administration of part D as may be agreed upon. The cost of carrying out any such agreement shall be paid to the State in advance or by way of reimbursement and in such installments as may be agreed upon.

“PENALTIES FOR FRAUD

“SEC. 462. The provisions of section 208, other than paragraph (a), shall apply with respect to benefits under part D and allowances

under part C, of this title, to the same extent as they apply to payments under title II.

"REPORT, EVALUATION, RESEARCH AND DEMONSTRATIONS, AND TRAINING AND TECHNICAL ASSISTANCE

"SEC. 463. (a) The Secretary shall make an annual report to the President and the Congress on the operation and administration of parts D and E, including an evaluation thereof in carrying out the purposes of such parts and recommendations with respect thereto. The Secretary is authorized to conduct evaluations directly or by grants or contracts of the programs authorized by such parts.

"(b) The Secretary is authorized to conduct, directly or by grants or contracts, research into or demonstrations of ways of better providing financial assistance to needy persons or of better carrying out the purposes of part D, and in so doing to waive any requirements or limitations in such part with respect to eligibility for or amount of family assistance benefits for such family, members of families, or groups thereof as he deems appropriate.

"(c) The Secretary is authorized to provide such technical assistance to States, and to provide, directly or through grants or contracts, for such training of personnel of States, as he deems appropriate to assist them in more efficiently and effectively carrying out their agreements under this part and part E.

"(d) In addition to funds otherwise available therefor, such portion of any appropriation to carry out part D or E as the Secretary may determine, but not in excess of one-half of 1 per centum thereof, shall be available to him to carry out this section.

"SPECIAL PROVISIONS FOR PUERTO RICO, THE VIRGIN ISLANDS, AND GUAM

"SEC. 464. (a) In applying the provisions of sections 442 (a) and (b), 443 (a) (4), 452 (b) (1), 1603 (a) (1) and (b) (1), and 1604 (1) and (2) with respect to Puerto Rico, the Virgin Islands, or Guam, the amounts to be used shall (instead of the \$500, \$300, and \$1,500 in such section 442 (a) and (b) and section 1603 (a) (1), the \$720 in section 443 (a) (4) and section 452 (b) (1), the \$90 in section 1603 (b) (1), the \$65 in section 1604 (2), and the \$50 in section 1604 (1)) bear the same ratio to such \$500, \$300, \$1,500, \$720, \$90, \$65, and \$50 as the per capita incomes of Puerto Rico, the Virgin Islands, and Guam, respectively, bear to the per capita income of that one of the fifty States which has the lowest per capita income; except that in no case may the amounts so used exceed such \$500, \$300, \$1,500, \$720, \$90, \$65, and \$50.

"(b) (1) The amounts to be used under such sections in Puerto Rico, the Virgin Islands, and Guam shall be promulgated by the Secretary between July 1 and September 30 of each even-numbered year, on the basis of the average per capita income of each State and of the United States for the most recent calendar year for which satisfactory data are available from the Department of Commerce. Such promulgation shall be conclusive for fiscal year beginning July 1 next succeeding such promulgation: *Provided*, That the Secretary shall promulgate such amounts as soon as possible after the enactment of this part, which promulgation shall be conclusive for six calendar

quarters in the period beginning with the January 1 following the fiscal year in which this part is enacted, and ending with the close of the second June 30 thereafter.

“(2) The term ‘United States’, for purposes of paragraph (1) only, means the fifty States and the District of Columbia.

“(c) If the amounts which would otherwise be promulgated for any year for any of the three States referred to in subsection (a) would be lower than the amounts promulgated for such State for the immediately preceding period, the amounts for such fiscal year shall be increased to the extent of the difference; and the amounts so increased shall be the amounts promulgated for such year.

“MANPOWER SERVICES, TRAINING, EMPLOYMENT, AND CHILD-CARE PROGRAMS

“SEC. 102. Part C of title IV of the Social Security Act (42 U.S.C. 630, et seq.) is amended to read as follows:

“PART C—MANPOWER SERVICES, TRAINING, EMPLOYMENT, AND DAY CARE PROGRAMS FOR RECIPIENTS OF FAMILY ASSISTANCE OR SUPPLEMENTARY BENEFITS

“PURPOSE

“SEC. 430. The purpose of this part is to authorize provision, for individuals who are members of a family receiving benefits under part D or supplementary payments pursuant to part E, of manpower services, training, employment, and child care and related services necessary to train such individuals, prepare them for employment, and otherwise assist them in securing and retaining regular employment and having the opportunity for advancement in employment, to the end that needy families with children will be restored to self-supporting, independent, and useful roles in their communities.

“OPERATION OF MANPOWER SERVICES, TRAINING, AND EMPLOYMENT PROGRAMS

“SEC. 431. (a) The Secretary of Labor (hereinafter in this part referred to as the ‘Secretary’) shall, for each person registered pursuant to part D, in accordance with priorities prescribed by him, develop or assure the development of an employability plan describing the manpower services, training, and employment which the Secretary determines each person needs in order to enable him to become self-supporting and secure and retain employment and opportunities for advancement.

“(b) The Secretary shall, in accordance with the provisions of this part, establish and assure the provision of manpower services, training, and employment programs in each State for persons registered pursuant to part D or receiving supplementary payments pursuant to part E. The Secretary shall, through such programs, provide or assure the provision of manpower services, training, and employment and opportunities necessary to prepare such persons for and place them in regular employment, including such services and opportunities which the Secretary is authorized to provide under any other Act, and including counseling, testing, institutional and on-the-job training, work experi-

ence, up-grading, program orientation, relocation assistance (including grants, loans, and the furnishing of such services as will aid in involuntarily unemployed individual to relocate in an area where he may obtain suitable employment), incentives to public or private employers to hire and train these persons (including reimbursement for a limited period when an employee may not be fully productive), special work projects, job development, coaching, job placement and follow up services required to assist in securing and retaining employment and opportunities for advancement.

"ALLOWANCES FOR INDIVIDUALS UNDERGOING TRAINING

"SEC. 432. (a) (1) The Secretary shall pay to each individual who is a member of a family and is participating in manpower training under this part an incentive allowance of \$30 per month. If such members of a family would (but for the receipt of payments pursuant to this title) be eligible in such month, under any other statute providing for manpower training, for allowances which in total would be in excess of the sum of the family assistance benefit and supplementary payments pursuant to part E payable with respect to such month to the family, the total of the incentive allowances per month under this section for such members shall be equal to such excess, or to \$30 for each such member, whichever is greater.

"(2) The Secretary shall, in accordance with regulations, also pay to any member of a family participating in manpower training under this part, allowances for transportation and other costs to him directly related to his participation in training.

"(3) The Secretary shall by regulation provide for such smaller allowances under this subsection as he deems appropriate for individuals in Puerto Rico, the Virgin Islands, and Guam.

"(b) Such allowances shall be in lieu of allowances provided for participants in manpower training programs under any other Act.

"(c) Subsection (a) shall not apply to any member of a family who is participating in a program of the Secretary providing public or private employer compensated on-the-job training.

"DENIAL OF ALLOWANCES FOR REFUSAL TO UNDERGO TRAINING

"SEC. 433. (a) If and for so long as the Secretary determines that an individual who is a member of a family and has been required to register under part D for manpower training or employment has, without good cause, ceased to participate in manpower training under this part, no allowance under this part shall be payable to such individual.

"(b) The Secretary shall provide reasonable notice and opportunity for hearing to any individual with respect to whom such a determination has been made.

"(c) Final determinations of the Secretary after such hearings shall be subject to judicial review as provided by section 205(g) for final determinations under title II, and the provisions of sections 205 (a), (d), (e), and (f), 206, and 207 shall apply with respect to this part to the same extent as they apply to title II.

“UTILIZATION OF OTHER PROGRAMS

“SEC. 434. In providing the manpower training and employment services and opportunities required by this part the Secretary, to the maximum extent feasible, shall assure that such services and opportunities are provided in such manner, through such means, and using all authority available to him under any other Act (and subject to all duties and responsibilities thereunder) as will further the establishment of an integrated and comprehensive manpower training program involving all sectors of the economy and all levels of government and as will make maximum use of existing manpower and manpower related programs and agencies. To such end the Secretary may use the funds appropriated to him under this part to provide the programs required by this part through such other Act, to the same extent and under the same conditions as if appropriated under such other Act and in making use of the programs of other Federal, State, or local agencies, public or private, the Secretary may reimburse such agencies for services rendered to persons under this part to the extent such services and opportunities are not otherwise available on a nonreimbursable basis.

“RULES AND REGULATIONS

“SEC. 435. The Secretary may issue such rules and regulations as he finds necessary to carry out the purposes of this part: *Provided*, That in developing policies and programs for manpower services, training, and employment, the Secretary shall first obtain the concurrence of the Secretary of Health, Education, and Welfare with regard to such policies and programs which are under the usual and traditional authority of the Secretary of Health, Education, and Welfare (including basic education, institutional training, health, child care and other supportive services, new careers and job restructuring in the health, education, and welfare professions, and work-study programs), and shall consult with the Secretary of Health, Education, and Welfare with regard to all such other policies and programs.

“APPROPRIATIONS

“SEC. 436. There is authorized to be appropriated to the Secretary for each fiscal year a sum sufficient for carrying out the purposes of this part (other than section 437), including payment of not to exceed (except in such cases as the Secretary may determine) 90 per centum of the cost of manpower services, training, and employment and opportunities provided for individuals registered pursuant to section 447. The Secretary of Labor shall establish criteria to achieve an equitable apportionment among the States of Federal expenditures for carrying out the programs authorized by section 431. In developing these criteria the Secretary shall consider the number of registrations under section 447 and other relevant factors.

“CHILD CARE AND SUPPORTIVE SERVICES

“SEC. 437. (a) There are authorized to be appropriated for each fiscal year such sums as may be necessary to enable the Secretary of Health, Education, and Welfare to make grants to any public or nonprofit

private agency or organization, and contracts with any public or private agency or organization, for not to exceed (except in such cases as the Secretary of Health, Education, and Welfare may determine) 90 per centum of the cost of projects for the provision of child care and related services, including necessary alteration, remodeling, and renovation of facilities, which may be necessary or appropriate in order to better enable an individual who has been registered pursuant to part D or is receiving supplementary payments pursuant to part E to undertake or continue manpower training or employment under this part or to enable a member of a family, which is or has been (within such period of time as the Secretary may prescribe) eligible for benefits under such part D or payments pursuant to such part E, to undertake or continue manpower training or employment under this part; or, with respect to the period prior to the date when part D becomes effective for a State, to better enable an individual receiving aid to families with dependent children, or whose needs are taken into account in determining the need of any one claiming or receiving such aid, to participate in manpower training or employment.

“(b) Such sums shall also be available to enable the Secretary of Health, Education, and Welfare to make grants to any public or non-profit private agency or organization, and contracts with any public or private agency or organization for evaluation, training of personnel, technical assistance or research or demonstration projects to determine more effective methods of providing any such care and other services.

“(c) To the extent permitted by the Secretary of Health, Education, and Welfare, the non-Federal share of the cost of any such project may be provided in the form of services or facilities.

“(d) The Secretary of Health, Education, and Welfare may provide, in any case in which a family is able to pay for part or all of the cost of day care or other services provided under a project assisted under this section, for payment by the family of such fees for the care or services as may be reasonable in the light of such ability.

“ADVANCE FUNDING

“SEC. 438. (a) For the purpose of affording adequate notice of funding available under this part, appropriations for grants, contracts, or other payments with respect to individuals registered pursuant to section 447 are authorized to be included in the appropriation Act for the fiscal year preceding the fiscal year for which they are available for obligation.

“(b) In order to effect a transition to the advance funding method of timing appropriation action, the amendment made by subsection (a) shall apply notwithstanding that its initial application will result in enactment in the same year (whether in the same appropriation Act or otherwise) of two separate appropriations, one for the then current fiscal year and one for the succeeding fiscal year.

“EVALUATION AND RESEARCH; REPORT TO CONGRESS

“SEC. 439. (a) The Secretary shall (jointly with the Secretary of Health, Education, and Welfare) provide for the continuing evaluation of the manpower training and employment programs provided under this part, including their effectiveness in achieving stated goals

and their impact on other related programs. The Secretary may conduct research regarding, and demonstrations of, ways to improve the effectiveness of the manpower training and employment programs so provided and may also conduct demonstrations of improved training techniques for upgrading the skills of the working poor. The Secretary may, for these purposes, contract for independent evaluations of and research regarding such programs or individual projects under such programs, and establish a data collection, processing, and retrieval system.

“(b) The Secretary shall report to the Congress on or before the end of each fiscal year (with the first such report being made on or before the July 1 following the first full year after the date on which part D becomes effective with respect to any States) on the manpower training and employment programs provided under this part.”

ELIMINATION OF PRESENT PROVISIONS ON CASH ASSISTANCE FOR FAMILIES WITH DEPENDENT CHILDREN

SEC. 103. (a) Section 401 of the Social Security Act (42 U.S.C. 601) is amended by striking out “financial assistance and” in the first sentence.

(b) Section 402(a) of such Act (42 U.S.C. 602) is amended by—

(1) striking out “aid and” in so much thereof as precedes clause (1);

(2) inserting, at the beginning of clause (1), “except to the extent permitted by the Secretary,”;

(3) striking out clause (4);

(4) in clause (5) (B), striking out “recipients and other persons” and inserting in lieu thereof “persons” and striking out “providing services to applicants and recipients” and inserting in lieu thereof “providing services under the plan”;

(5) striking out clauses (7) and (8);

(6) in clause (9), striking out “aid to families with dependent children” and inserting in lieu thereof “the plan”;

(7) striking out clauses (10), (11), and (12);

(8) in clause (14), striking out “for each child and relative who receives aid to families with dependent children, and each appropriate individual (living in the same home as a relative and child receiving such aid whose needs are taken into account in making the determination under clause (7))” and inserting in lieu thereof “for each member of a family receiving assistance to needy families with children, each appropriate individual (living in the same home as such family) whose needs would be taken into account in determining the need of any such member under the State plan (approved under this part) as in effect prior to the enactment of part D, and each individual who would have been eligible to receive aid to families with dependent children under such plan” and striking out “such child, relative, and individual” and inserting in lieu thereof “such member or individual”;

(9) striking out clause (15) and inserting in lieu thereof:

“(15) (A) provide for the development of a program, for appropriate members of such families and such other individuals, for preventing

or reducing the incidence of births out of wedlock and otherwise strengthening family life, and for implementing such program by assuring that in all appropriate cases family planning services are offered to them, but acceptance of family planning services provided under the plan shall be voluntary on the part of such members and individuals and shall not be a prerequisite to eligibility for or the receipt of any other service under the plan; and (B) to the extent that services provided under this clause or clause (14) are furnished by the staff of the State agency or the local agency administering the State plan in each of the political subdivisions of the State, for the establishment of a single organizational unit in such State or local agency, as the case may be, responsible for the furnishing of such services;”

(10) striking out “aid” in clause (16) and “aid to families with dependent children” in clause (17) (A) (i) and inserting in lieu thereof “assistance to needy families with children” and striking out “aid” in clause (17) (A) (ii) and inserting in lieu thereof “assistance”;

(11) striking out clause (19);

(12) striking out “aid to families with dependent children in the form of foster care” in clause (20) and inserting in lieu thereof “payments for foster care”; striking out “dependent child or children with respect to whom aid is being provided under the State plan” in clause (21) (A) and inserting in lieu thereof “child or children with respect to whom assistance to needy families with children or foster care is being provided”;

(13) striking out “aid is being provided under the plan of such other State” in clause (A) and clause (B) of clause (22) and inserting in lieu thereof “assistance to needy families with children or foster care payments are being provided in such other State”;

(14) striking out clause (23) and striking out “; and” at the end of clause (22) and inserting in lieu thereof a period.

(c) Section 402(b) of such Act is amended to read as follows:

“(b) The Secretary shall approve any plan which fulfills the conditions specified in subsection (a), except that he shall not approve any plan which imposes, as a condition of eligibility for services under it, a residence requirement which denies services or foster care payments with respect to any individual residing in the State.

(d) Such section 402 is further amended by striking out subsection (c) thereof.

(e) Subsection (a) of section 403 of such Act (42 U.S.C. 603) is amended by—

(1) striking out “aid and services” and inserting in lieu thereof “services” in so much thereof as precedes paragraph (1);

(2) amending paragraph (1) to read:

“(1) an amount equal to the sum of the following proportions of the total amounts expended during such quarter as payments for foster care in accordance with section 408—

“(A) five-sixths of such expenditures, not counting so much of any expenditures as exceeds the product of \$18 multiplied by the number of children receiving such foster care in such month; plus

“(B) the Federal percentage of the amount by which such

expenditures exceeds the maximum which may be counted under subparagraph (A), not counting so much of any expenditures with respect to such month as exceeds the product of \$100 multiplied by the number of children receiving such foster care for such month."

(3) striking out paragraph (2) ;

(4) in paragraph (3), striking out "in the case of any State," in so much thereof as precedes subparagraph (A), striking out in clause (i) of such subparagraph "or relative who is receiving aid under the plan, or to any other individual (living in the same home as such relative and child) whose needs are taken into account in making the determination under clause (7) of such section" and inserting in lieu thereof "receiving foster care or any member of a family receiving assistance to needy families with children or to any other individual (living in the same home as such family) whose needs would be taken into account in determining the need of any such member under the State plan approved under this part as in effect prior to the enactment of part D, striking out in clause (ii) of such subparagraph "child or relative who is applying for aid to families with dependent children or" and inserting in lieu thereof "member of a family" and striking out in such clause (ii) "likely to become an applicant for or recipient of such aid" and inserting in lieu thereof "likely to become eligible to receive such assistance";

(5) striking out the sentences of such subsection (a) which follow paragraph (5) ;

(f) Subsection (b) of such section 403 is amended by striking out "records showing the number of dependent children in the State and (C)" in paragraph (1) thereof and by striking out, in paragraph (2) thereof, "(A)" and everything beginning with ", and (B)" and all that follows down to but not including the period.

(g) Section 404 of such Act (42 U.S.C. 604) is amended by striking out "(a) In the case of any State plan for aid and services" and inserting in lieu thereof "In the case of any State plan for services" and by striking out subsection (b) thereof.

(h) Section 405 of such Act (42 U.S.C. 605) is repealed.

(i) Section 406 of such Act (42 U.S.C. 606) is amended by—

(1) striking out subsections (a) and (b) and inserting in lieu thereof:

"(a) The term 'child' means a child as defined in section 445(b).

"(b) The term 'needy families with children' means families who are receiving family assistance benefits under part D and who (1) are receiving supplementary payments under part E, or (2) would be eligible to receive aid to families with dependent children, under a State plan (approved under this part) as in effect prior to the enactment of part D, if the State plan had continued in effect and if it included assistance to dependent children of unemployed fathers pursuant to section 407 as it was in effect prior to such enactment; and 'assistance to needy families with children' means family assistance benefits under such part D, paid to such families."

(2) striking out subsection (c) ;

(3) in subsection (e) (1), striking out "living with any of the relatives specified in subsection (a) (1) in a place of residence

maintained by one or more of such relatives as his or their own home" and inserting in lieu thereof "a member of a family (as defined in section 445(a))" and striking out "because such child or relative refused" and inserting in lieu thereof "because such child or another member of such family refused."

(j) Section 407 of such Act (42 U.S.C. 607) is repealed.

(k) Section 408 of such Act (42 U.S.C. 608) is amended by—

(1) amending so much (including the heading) thereof as preceeds subparagraph (1) of paragraph (b) to read as follows:

"FOSTER CARE

"SEC. 408. For purposes of this part—

"(a) Foster care shall include only such care which is provided in behalf of a child (1) who would, except for his removal from the home of a family as a result of a judicial determination to the effect that continuation therein would be contrary to his welfare, be a member of such family receiving assistance to needy families with children, (2) whose placement and care are the responsibility of (A) the State or local agency administering the State plan approved under section 402, or (B) any other public agency with whom the State agency administering or supervising the administration of such State plan has made an agreement which is still in effect and which includes provision for assuring development of a plan, satisfactory to such State agency, for such child as provided in paragraph (f) (1) and such other provisions as may be necessary to assure accomplishment of the objectives of the State plan approved under section 402, (3) who has been placed in a foster family home or child-care institution as a result of such determination, and (4) who (A) received assistance to needy families with children in or for the month in which court proceedings leading to such determination were initiated, or (B) would have received such assistance to needy families with children in or for such month if application had been made therefore, or (C) in the case of a child who had been a member of a family (as defined in section 445(a)) within 6 months prior to the month in which such proceedings were initiated, would have received such assistance in or for such month if in such month he had been a member of (and removed from the home of) such a family and application had been made therefor;

"(b) but only if such care is provided—";

(2) in paragraph (b) (2), striking out "aid to families with dependent children" and inserting in lieu thereof "foster care" and striking out "such foster care" and inserting in lieu thereof "foster care";

(3) striking out subsection (c);

(4) striking out "aid" and inserting in lieu thereof "services" in subsection (e);

(5) in subsection (f) (1), striking out "relative specified in section 406(a)" and inserting in lieu thereof "family (as defined in section 445(a))";

(6) in subsection (f) (2), striking out "522" and inserting in lieu thereof "422" and striking out "part 3 of title V" and inserting in lieu thereof "part B of this title".

CHANGE IN HEADING

SEC. 104. (a) The heading of title IV of the Social Security Act (42 U.S.C. 601, et seq.) is amended to read as follows:

"TITLE IV—FAMILY ASSISTANCE BENEFITS, STATE SUPPLEMENTAL PAYMENTS, WORK INCENTIVE PROGRAMS, AND GRANTS TO STATES FOR FAMILY AND CHILD WELFARE SERVICES"

(b) The heading of part A of such title IV is amended to read as follows:

"PART A—SERVICES TO NEEDY FAMILIES WITH CHILDREN"

TITLE II—AID TO THE AGED, BLIND, AND DISABLED

GRANTS TO STATES FOR AID TO THE AGED, BLIND, AND DISABLED

SEC. 201. Title XVI of the Social Security Act (42 U.S.C. 1381 et seq.) is amended to read as follows:

"TITLE XVI—GRANTS TO STATES FOR AID TO THE AGED, BLIND, AND DISABLED

"APPROPRIATIONS

"SEC. 1601. For the purpose of enabling each State to furnish financial assistance to needy individuals who are 65 years of age or over, blind, or disabled and for the purpose of encouraging each State to furnish rehabilitation and other services to help such individuals attain or retain capability for self-support or self-care, there are authorized to be appropriated for each fiscal year sums sufficient to carry out these purposes. The sums made available under this section shall be used for making payments to States having State plans approved under section 1602.

"STATE PLANS FOR FINANCIAL ASSISTANCE AND SERVICES TO THE AGED, BLIND, AND DISABLED

"SEC. 1602. (a) A State plan for aid to the aged, blind, and disabled must—

"(1) provide for the establishment or designation of a single State agency to administer or supervise the administration of the State plan;

"(2) provide such methods of administration as are found by the Secretary to be necessary, for the proper and efficient operation of the plan, including methods relating to the establishment and maintenance of personnel standards on a merit basis (but the Secretary shall exercise no authority with respect to the selection, tenure of office, and compensation of individuals employed in accordance with such methods);

"(3) provide for the training and effective use of social service personnel in the administration of the plan, for the furnishing of technical assistance to units of State government and of po-

litical subdivisions which are furnishing financial assistance or services to the aged, blind, and disabled, and for the development through research or demonstration projects of new or improved methods of furnishing assistance or services to the aged, blind, and disabled;

“(4) provide for the training and effective use of paid sub-professional staff (with particular emphasis on the full-time or part-time employment of recipients and other persons of low-income as community service aides) in the administration of the plan and for the use of nonpaid or partially paid volunteers in a social service volunteer program in providing services to applicants and recipients and in assisting any advisory committees established by the State agency;

“(5) provide that all individuals wishing to make application for aid under the plan shall have opportunity to do so and that such aid shall be furnished with reasonable promptness with respect to all eligible individuals;

“(6) provide for the use of a simplified statement, conforming to standards prescribed by the Secretary, to establish eligibility, and for adequate and effective methods of verification of eligibility of applicants and recipients through the use, in accordance with regulations prescribed by the Secretary, of sampling and other scientific techniques;

“(7) provide that, except to the extent permitted by the Secretary with respect to services, the State plan shall be in effect in all political subdivisions of the State, and, if administered by them, be mandatory upon them;

“(8) provide for financial participation by the State;

“(9) provide that, in determining whether an individual is blind, there shall be an examination by a physician skilled in the diseases of the eye or by an optometrist, whichever the individual may select;

“(10) provide for granting an opportunity for a fair hearing before the State agency to any individual whose claim for aid under the plan is denied or is not acted upon with reasonable promptness;

“(11) provide for periodic evaluation of the operations of the State plan, not less often than annually, in accordance with standards prescribed by the Secretary, and the furnishing of annual reports of such evaluations to the Secretary together with any necessary modifications of the State plan resulting from such evaluations;

“(12) provide that the State agency will make such reports, in such form and containing such information, as the Secretary may from time to time require, and comply with such provisions as the Secretary may from time to time find necessary to assure the correctness and verification of such reports;

“(13) provide safeguards which restrict the use of disclosure of information concerning applicants and recipients to purposes directly connected with the administration of the plan (consistent with section 618 of the Revenue Act of 1951);

“(14) provide, if the plan includes aid to or on behalf of individuals in private or public institutions, for the establish-

ment or designation of a State authority or authorities which shall be responsible for establishing and maintaining standards for such institutions;

“(15) provide a description of the services which the State makes available to applicants for or recipients of aid under the plan to help them attain self-support or self-care, including a description of the steps taken to assure, in the provision of such services, maximum utilization of all available services that are similar or related;

“(16) provide for periodic evaluation of the operation of the plan by persons interested in or expert in matters related to assistance and services to the aged, blind, and disabled, including persons who are recipients of aid to the aged, blind, and disabled; and

“(17) assure that, in administering the State plan and providing services thereunder, the State will observe priorities established by the Secretary and comply with such performance standards as the Secretary may, from time to time, establish.

Notwithstanding paragraph (1), if on January 1, 1962, and on the date on which a State submits (or submitted) its plan for approval under this title, the State agency which administered or supervised the administration of the plan of such State approval under title X was different from the State agency which administered or supervised the administration of the plan of such State approved under title I and the State agency which administered or supervised the administration of the plan of such State approved under title XIV, then the State agency which administered or supervised the administration of such plan approved under title X may be designated to administer or supervise the administration of the portion of the State plan for aid to the aged, blind, and disabled which relates to blind individuals and a separate State agency may be established or designated to administer or supervise the administration of the rest of such plan; and in such case the part of the plan which each such agency administers, or the administration of which each such agency supervises, shall be regarded as a separate plan for purposes of this title.

“(b) The Secretary shall approve any plan which fulfills the conditions specified in subsection (a) and in section 1603, except that he shall not approve any plan which imposes, as a condition of eligibility for aid under the plan—

“(1) an age requirement of more than sixty-five years;

“(2) any residency requirement which excludes any individual who resides in the State;

“(3) any citizen requirement which excludes any citizen of the United States;

“(4) any disability or age requirement which excludes any persons under a severe disability, as determined in accordance with criteria prescribed by the Secretary, who are eighteen years of age or older; or

“(5) any blindness or age requirement which excludes any persons who are blind as determined in accordance with criteria prescribed by the Secretary.

In the case of any State to which the provisions of section 344 of the Social Security Act Amendments of 1950 were applicable on Janu-

ary 1, 1962, and to which the sentence of section 1002(b) following paragraph (2) thereof is applicable on the date on which its State plan was or is submitted for approval under this title, the Secretary shall approve the plan of such State for aid to the aged, blind, and disabled for purposes of this title, even though it does not meet the requirements of section 1603(a) if it meets all other requirements of this title for an approved plan for aid to the aged, blind, and disabled; but payments to the State under this title shall be made, in the case of any such plan, only with respect to expenditures thereunder which would be included as expenditures for the purposes of this title under a plan approved under this section without regard to the provisions of this sentence.

“DETERMINATION OF NEED

“SEC. 1603. (a) A State plan must provide that, in determining the need for aid under the plan, the State agency shall take into consideration any other income or resources of the individual claiming such aid as well as any expenses reasonably attributable to the earning of any such income; except that, in making such determination with respect to any individual—

“(1) the State agency shall not consider as resources (A) the home, household goods, and personal effects of the individual, (B) other personal or real property, the total value of which does not exceed \$1,500, or (C) other property which as determined in accordance with and subject to limitations in regulations of the Secretary, is so essential to the family's means of self-support as to warrant its exclusion, but shall apply the provisions of section 442(e) and regulations thereunder;

“(2) the State agency shall not consider the financial responsibility of any individual for any applicant or recipient unless the applicant or recipient is the individual's spouse, or the individual's child who is under the age of 21 or is blind or severely disabled:

“(3) if such individual is blind, the State agency (A) shall disregard the first \$85 per month of earned income plus one-half of earned income in excess of \$85 per month, and (B) shall, for a period not in excess of twelve months, and may, for a period not in excess of thirty-six months, disregard such additional amounts of other income and resources, in the case of any such individual who has a plan for achieving self-support approved by the State agency, as may be necessary for the fulfillment of such plan;

“(4) if the individual is not blind but is severely disabled, the State agency may disregard (A) not more than the first \$20 of the first \$80 per month of earned income plus one-half of the remainder thereof and (B) such additional amounts of other income and resources, for a period not in excess of thirty-six months, in the case of any such individual who has a plan for achieving self-support approved by the State agency, as may be necessary for the fulfillment of the plan, but only with respect to the part or parts of such period during substantially all of which he is undergoing vocational rehabilitation;

“(5) if such individual has attained age 65 and is neither blind nor severely disabled, the State agency may disregard not more

than the first \$20 of the first \$80 per month of earned income plus one-half of the remainder thereof.

“(b) A State plan must also provide that—

“(1) each eligible individual, other than one who is a patient in a medical institution or is receiving institutional services in an intermediate care facility to which section 1121 applies, shall receive financial assistance in such amount as, when added to his income which is not disregarded pursuant to subsection (a), will provide a minimum of \$90 per month.

“(2) the standard of need applied for determining eligibility for an amount of aid for the aged, blind, and disabled shall not be lower than (A) the standard applied for this purpose under the State plan (approved under this title) as in effect on the date of enactment of part D of title IV of this Act, or (B) if there was no such plan in effect for such State on such date, the standard of need which was applicable under

“(i) the State plan which was in effect on such date and was approved under title I, in the case of any individual who is 65 years of age or older,

“(ii) the State plan in effect on such date and approved under title X, in the case of an individual who is blind, or

“(iii) the State plan in effect on such date and approved under title XIV, in the case of an individual who is severely disabled,

except that if 2 or more of clauses (i), (ii), and (iii) are applicable to an individual, the standard of need applied with respect to such individual may not be lower than the higher (or highest) of the standards under the applicable plans, and except that if none of such clauses is applicable to individuals, the standard of need applied with respect to such individual may not be lower than higher of the standards under the State plans approved under title I, X, or XIV, which was in effect on such date, and

“(3) no aid will be furnished to any individual under the State plan for any period with respect to which he is considered a member of a family receiving family assistance benefits under part D of title IV or training allowances under part C thereof for purposes of determining the amount of such benefits or allowances (but this paragraph shall not prevent payments with respect to other members of his family pursuant to title IV of this Act).

“(4) no lien will be imposed against the property of any individual or his estate on account of aid paid to him under the plan (except pursuant to the judgement of a court on account of benefits incorrectly paid to such individual), and that there will be no adjustment or any recovery of aid correctly paid to him under the plan.

“(c) For special provisions applicable to Puerto Rico, the Virgin Islands, and Guam, see section 464.

“PAYMENTS TO STATES FOR AID TO THE AGED, BLIND, AND DISABLED

“SEC. 1604. From the sums appropriated therefor, the Secretary shall pay to each State which has a plan approved under this title, for each calendar quarter, an amount equal to the sum of the following

proportions of the total amounts expended during each month of such quarter as aid to the aged, blind, and disabled under the State plan—

“(1) 100 per centum of such expenditures, not counting so much of any expenditures as exceeds the product of \$50 multiplied by the total number of recipients of such aid for such month; plus

“(2) 50 per centum of the amount by which such expenditures exceed the maximum which may be counted under paragraph (1), not counting so much of any expenditures with respect to such month as exceeds the product of \$65 multiplied by the total number of recipients of such aid for such month; plus

“(3) 25 per centum of the amount by which such expenditures exceed the maximum which may be counted under paragraph (2), not counting so much of any expenditures with respect to such month as exceeds the product of the amount which, as determined by the Secretary, is the maximum permissible level of assistance per person in which the Federal Government will participate financially, multiplied by the total number of recipients of such aid for such month.

In the case of any individual in Puerto Rico, the Virgin Islands, or Guam, the maximum permissible level of assistance under paragraph (3) may be lower than in the case of individuals in the other States. See also, section 464 for other special provisions applicable to Puerto Rico, the Virgin Islands, and Guam.

“ALTERNATE PROVISION FOR DIRECT FEDERAL PAYMENTS TO INDIVIDUALS

“SEC. 1605. The Secretary may enter into an agreement with a State under which he will, on behalf of the State, pay aid to the aged, blind, and disabled directly to individuals in the State under the State's plan approved under this title and perform such other functions of the State in connection with such payments as may be agreed upon. In such case payments shall not be made as provided in section 1604 and the agreement shall also provide for payment to the Secretary by the State of its share of such aid, together with one-half of the additional cost to the Secretary involved in carrying out the agreement, other than the cost of making the payments.

“OVERPAYMENTS AND UNDERPAYMENTS

“SEC. 1606. Whenever the Secretary finds that more or less than the correct amount of payment has been made to any person as a direct Federal payment pursuant to section 1605, proper adjustment or recovery shall, subject to the succeeding provisions of this section, be made by appropriate adjustments in future payments of the overpaid individual or by recovery from him or his estate or payment to him. The Secretary shall make such provision as he finds appropriate in the case of payment of more than the correct amount of benefits with a view to avoiding penalizing individuals who were without fault in connection with the overpayment, if adjustment or recovery on account of such overpayment in such case would defeat the purposes of this title, or be against equity or good conscience, or (because of the small amount involved) impede efficient or effective administration.

“OPERATION OF STATE PLANS

“SEC. 1607. If the Secretary, after reasonable notice and opportunity for hearing to the State agency administering or supervising the administration of the State plan approved under this title, finds—

“(1) that the plan no longer complies with the provisions of sections 1602 or 1603; or

“(2) that in the administration of the plan there is a failure to comply substantially with any such provision;

the Secretary shall notify such State agency that all, or such portion as he deems appropriate, of any further payments will not be made to the State or individuals within the State under this title (or, in his discretion, that payments will be limited to categories under or parts of the State plan not affected by such failure), until the Secretary is satisfied that there will no longer be any such failure to comply. Until he is so satisfied he shall make no such further payments to the State or individuals in the State under this title (or shall limit payments to categories under or parts of the State plan not affected by such failure).

“PAYMENTS TO STATES FOR SERVICES AND ADMINISTRATION

“SEC. 1608. (a) If the State plan of a State approved under section 1602 provides that the State agency will make available to applicants for or recipients of aid to the aged, blind, and disabled under the State plan at least those services to help them attain or retain capability for self-support or self-care which are prescribed by the Secretary, such State shall qualify for payments for services under subsection (b) of this section.

“(b) In the case of any State whose State plan approved under section 1602 meets the requirements of subsection (a), the Secretary shall pay to the State from the sums appropriated therefor an amount equal to the sum of the following proportions of the total amounts expended during each quarter, as found necessary by the Secretary for the proper and efficient administration of the State plan—

“(1) 75 per centum of so much of such expenditures as are for—

“(A) services which are prescribed pursuant to subsection (a) and are provided (in accordance with subsection (c)) to applicants for or recipients of aid under the plan to help them attain or retain capability for self-support or self-care, or

“(B) other services, specified by the Secretary as likely to prevent or reduce dependency, so provided to the applicants or recipients of aid, or

“(C) any of the services prescribed pursuant to subsection (a), and any of the services specified in subparagraph (B) of this paragraph, which the Secretary may specify as appropriate for individuals who, within such period or periods as the Secretary may prescribe, have been or are likely to become applicants for or recipients of aid under the plan, if such services are requested by the individuals and are provided to them in accordance with subsection (c), or

“(D) the training of personnel employed or preparing for employment by the State agency or by the local agency administering the plan in the political subdivision; plus

“(2) one-half of so much of such expenditures (not included under paragraph (1)) as are for services provided (in accordance with subsection (c)) to applicants for or recipients of aid under the plan, and to individuals requesting such services who (within such period or periods as the Secretary may prescribe) have been or are likely to become applicants for or recipients of such aid; plus

“(3) one-half of the remainder of such expenditures.

“(c) The services referred to in paragraphs (1) and (2) of subsection (b) shall, except to the extent specified by the Secretary, include only—

“(1) services provided by the staff of the State agency, or the local agency administering the State plan in the political subdivision (but no funds authorized under this title shall be available for services defined as vocational rehabilitation services under the Vocational Rehabilitation Act (A) which are available to individuals in need of them under programs for their rehabilitation carried on under a State plan approved under that Act, or (B) which the State agency or agencies administering or supervising the administration of the State plan approved under that Act are able and willing to provide if reimbursed for the cost thereof pursuant to agreement under paragraph (2), if provided by such staff), and

“(2) subject to limitations prescribed by the Secretary, services which in the judgment of the State agency cannot be as economically or as effectively provided by the staff of that State or local agency and are not otherwise reasonably available to individuals in need of them, and which are provided, pursuant to agreement with the State agency, by the State health authority or the State agency or agencies administering or supervising the administration of the State plan for vocational rehabilitation services approved under the Vocational Rehabilitation Act or by any other State agency which the Secretary may determine to be appropriate (whether provided by its staff or by contract with public (local) or nonprofit private agencies).

Services described in clause (B) of paragraph (1) may be provided only pursuant to agreement with the State agency or agencies administering or supervising the administration of the State plan for vocational rehabilitation services approved under the Vocational Rehabilitation Act.

“(d) The portion of the amount expended for administration of the State plan to which paragraph (1) of subsection (b) applies and the portion thereof to which paragraphs (2) and (3) of subsection (b) apply shall be determined in accordance with such methods and procedures as may be permitted by the Secretary.

“(e) In the case of any State whose plan approved under section 1602 does not meet the requirements of subsection (a) of this section, there shall be paid to the State, in lieu of the amount provided for under subsection (b), an amount equal to one-half the total of the sums expended during each quarter as found necessary by the Secre-

tary for the proper and efficient administration of the State plan, including services referred to in subsections (b) and (c) and provided in accordance with the provisions of those subsections.

“(f) In the case of any State whose State plan included a provision meeting the requirements of subsection (a), but with respect to which the Secretary finds, after reasonable notice and opportunity for hearing to the State agency administering or supervising the administration of the plan, that—

“(1) the provision no longer complies with the requirements of subsection (a), or

“(2) in the administration of the plan there is a failure to comply substantially with such provision,

the Secretary shall notify the State agency that all, or such portion as he deems appropriate, of any further payments will not be made to the State under subsection (b) until he is satisfied that there will no longer be any such failure to comply. Until the Secretary is so satisfied, no such further payments with respect to the administration of and services under the State plan shall be made, subject to the other provisions of this title, under subsection (e) instead of subsection (b).

“COMPUTATION OF PAYMENTS TO STATES

“SEC. 1609. (a) (1) Prior to the beginning of each quarter, the Secretary shall estimate the amount to which a State will be entitled under subsections 1604 and 1608 for that quarter, such estimates to be based on (A) a report filed by the State containing its estimate of the total sum to be expended in that quarter in accordance with the provisions of sections 1604 and 1608, and stating the amount appropriated or made available by the State and its political subdivisions for such expenditures in that quarter, and, if such amount is less than the State's proportionate share of the total sum of such estimated expenditures, the source or sources from which the difference is expected to be derived, and (B) such other investigation as the Secretary may find necessary.

“(2) The Secretary shall then pay in such installments as he may determine, the amount so estimated, reduced or increased to the extent of any overpayment or underpayment which the Secretary determines was made under this section to the State for any prior quarter and with respect to which adjustment has not already been made under this subsection.

“(b) The pro rata share to which the United States is equitably entitled, as determined by the Secretary, of the net amount recovered during any quarter by a State or political subdivision thereof with respect to aid furnished under the State plan, but excluding any amount of such aid recovered from the estate of a deceased recipient which is not in excess of the amount expended by the State or any political subdivision thereof for the funeral expenses of the deceased, shall be considered an overpayment to be adjusted under subsection (a) (2).

“(c) Upon the making of any estimate by the Secretary under this subsection, any appropriations available for payments under this section shall be deemed obligated.

"DEFINITION

"SEC. 1610. For purposes of this title, the term 'aid to the aged, blind, and disabled' means money payments to needy individuals who are 65 years of age or older, are blind, or are severely disabled, but such term does not include—

"(1) any such payments to any individual who is an inmate of a public institution (except as a patient in a medical institution); or

"(2) any such payments to any individual who has not attained 65 years of age and who is a patient in an institution for tuberculosis or mental diseases.

Such term also includes payments which are not included within the meaning of such term under the preceding sentence, but which would be so included except that they are made on behalf of such a needy individual to another individual who (as determined in accordance with standards prescribed by the Secretary) is interested in or concerned with the welfare of such needy individual, but only with respect to a State whose State plan approved under section 1602 includes provision for—

"(A) determination by the State agency that the needy individual has, by reason of his physical or mental condition, such inability to manage funds that making payments to him would be contrary to his welfare and, therefore, it is necessary to provide such aid through payments described in this sentence;

(B) making such payments only in cases in which the payment will, under the rules otherwise applicable under the State plan for determining need and the amount of aid to the aged, blind, and disabled to be paid (and in conjunction with other income and resources), meet all the need of the individuals with respect to whom such payments are made;

"(C) undertaking and continuing special efforts to protect the welfare of such individuals and to improve, to the extent possible, his capacity of self-care and to manage funds;

"(D) periodic review by the State agency of the determination under clause (A) to ascertain whether conditions justifying such determination still exist, with provision for termination of the payments if they do not and for seeking judicial appointment of a guardian, or other legal representative, as described in section 1111, if and when it appears that such action will best serve the interests of the needy individual; and

"(E) opportunity for a fair hearing before the State agency on the determination referred to in clause (A) for any individual with respect to whom it is made.

Whether an individual is blind or severely disabled, shall be determined for purposes of this title in accordance with criteria prescribed by the Secretary."

REPEAL OF TITLES I, X, AND XIV OF THE SOCIAL SECURITY ACT

SEC. 202. Titles I, X, and XIV of the Social Security Act (42 U.S.C. 301, et seq., 1201, et seq., 1351, et seq.) are hereby repealed.

TRANSITION PROVISION RELATING TO OVERPAYMENTS AND UNDERPAYMENTS

SEC. 203. In the case of any State which has a State plan approved under title I, X, XIV, or XVI of the Social Security Act as in effect prior to the enactment of this section, any overpayment or underpayment which the Secretary determines was made to such State under section 3, 1003, 1403, or 1603 of such Act with respect to a period before the approval of a plan under title XVI as amended by this Act, and with respect to which adjustment has not already been made under subsection (b) of such section 3, 1003, 1403, or 1603, shall, for purposes of section 1609(a) of such Act as herein amended be considered an overpayment or underpayment (as the case may be) made under title XVI of such Act as herein amended.

TRANSITION PROVISION RELATING TO DEFINITIONS OF BLINDNESS
AND DISABILITY

SEC. 204. In the case of any State which has in operation a plan of aid to the blind under title X, aid to the permanently and totally disabled under title XIV, or aid to the aged, blind, or disabled under title XVI, of the Social Security Act as in effect prior to the enactment of this Act, the State plan of such State submitted under title XVI of such Act as amended by this Act shall not be denied approval thereunder, with respect to the period ending with the first July 1 which follows the close of the first regular session of the legislature of such State which begins after the enactment of this Act, by reason of its failure to include therein a test of disability or blindness different from that included in the State's plan (approved under such title X, XIV, or XVI of such Act) as in effect on the date of the enactment of this Act.

TITLE III—MISCELLANEOUS CONFORMING
AMENDMENTS

SEC. 301. Section 228(d) (1) of the Social Security Act is amended by striking out "I, X, XIV, or" and by striking out "part A" and inserting in lieu thereof "receives payments with respect to such month pursuant to part D or E".

SEC. 302. Title XI of the Social Security Act is amended as follows:

(1) in section 1101(a) (1) by striking out "I," "X," and "XIV,";

(2) in section 1106(c) (1) (A) by striking out "I, X, XIV,";

(3) in section 1108 by striking out "I, X, XIV, and XVI" and inserting in lieu thereof "XVI" in subsection (a) and by striking out "section 402(a) (19)" and inserting in lieu thereof "part A of title IV" in subsection (b);

(4) by amending section 1109 to read as follows:

"SEC. 1109. Any amount which is disregarded (or set aside for future needs) in determining the eligibility for and amount of aid or assistance for any individual under a State plan approved under title XVI or XIX, or eligibility for and amount of payments pursuant to part D or E of title IV, shall not be taken into consideration in determining the eligibility for and amount of such aid, assistance, or

payments for any other individual under such other State plan or such part D or E.”;

(5) in section 1111 by striking out “I, X, XIV, and” and by striking out “part A” and inserting in lieu thereof “parts D and E”;

(6) in section 1115 by striking out “I, X, XIV,” and by striking out “part A” and inserting in lieu thereof “parts A and E” in so much thereof as precedes clause (a), by striking out “of section 2, 402, 1002, 1402,” and inserting in lieu thereof “of or pursuant to section 402, 452,” in clause (a) thereof, and by striking out “3, 403, 1003, 1403, 1603,” and inserting in lieu thereof “403, 453, 1604, 1608,” in clause (b) thereof;

(7) in section 1116 by striking out “I, X, XIV,” in subsections (a) (1), (b), and (d), and by striking out “4, 404, 1004, 1404, 1604,” in subsection (a) (3) and inserting in lieu thereof “404, 1607, 1608,”;

(8) by repealing section 1118;

(9) in section 1119 by striking out “I, X, XIV,” and by striking out “part A” and inserting in lieu thereof “services under a State plan approved under part A”, and by striking out “3(a), 403(a), 1003(a), 1403(a), or 1603(a)” and inserting in lieu thereof “403(a) or 1604”;

(10) in section 1121(a) by striking out “a plan for old-age assistance, approved under title I, a plan for aid to the blind, approved under title X, a plan for aid to the permanently and totally disabled, approved under title XIV, or a plan for aid to the aged, blind, or disabled” and inserting in lieu thereof “a plan for aid to the aged, blind, and disabled”, and by inserting “(other than a public nonmedical facility)” after “intermediate care facilities” the first time it appears therein.

SEC. 303. Title XVIII of the Social Security Act is amended as follows:

(1) in section 1843(b) by striking out “title I or” in paragraph (1), by striking out “all of the plans” in paragraph (2) and substituting in lieu thereof “the plan”, and by striking out “titles I, X, XIV, and XVI, and part A” in paragraph (2) and inserting in lieu thereof “title XVI and under part E”;

(2) in section 1843(f) by striking out “title I, X, XIV, or XVI or part A” both times it appears and inserting in lieu thereof “title XVI and under part E”, and by striking out “title I, XVI, or XIX” and inserting in lieu thereof “title XVI or XIX”;

(3) in section 1863 by striking out “I, XVI”, and inserting in lieu thereof “XVI”.

SEC. 304. Title XIX of the Social Security Act is amended as follows:

(1) in clause (1) of the first sentence of section 1901 by striking out “families with dependent children” and “permanently and totally” and inserting in lieu thereof, respectively, “needy families with children” and “severely”;

(2) in section 1902(a) (5) by striking out “I or”;

(3) in section 1902(a) (10) by amending so much thereof as precedes clause (A) to read:

“(10) provide for making medical assistance available to all individuals receiving assistance to needy families with children as defined in section 406(b), receiving payments under an agreement pursuant to part E of title IV, or receiving aid to the aged, blind, and disabled under a State plan approved under title XVI; and—”

and by amending clauses (A) and (B) by inserting “or payments under such part E” after “such plan” each time it appears therein;

(4) by amending section 1902(a)(13)(B) to read:

“(B) in the case of individuals receiving assistance to needy families with children as defined in section 406(b), receiving payments under an agreement pursuant to part E of title IV, or receiving aid to the aged, blind, and disabled under a State plan approved under title XVI, for the inclusion of at least the care and services listed in clauses (1) through (5) of section 1905(a), and”;

(5) in section 1902(a)(14)(A) by striking out “aid or assistance under State plans approved under title I, X, XIV, XVI, and part A of title IV,” and inserting in lieu thereof “assistance to needy families with children as defined in section 406(b), receiving payments under an agreement pursuant to part E of title IV, or receiving aid to the aged, blind, and disabled under a State plan approved under title XVI,”;

(6) in section 1902(a)(17) by striking out in so much thereof as precedes clause (A) “aid or assistance under the State’s plan approved under title I, X, XIV, or XVI, or part A of title IV,” and inserting in lieu thereof “assistance to needy families with children as defined in section 406(b), payments under an agreement pursuant to part E of title IV, or aid under a State plan approved under title XVI,” by striking out in clause (B) thereof “aid or assistance in the form of money payments under a State plan approved under title I, X, XIV, or XVI, or part A of title IV” and inserting in lieu thereof “assistance to needy families with children as defined in section 406(b), payments under an agreement pursuant to part E of title IV, or aid to the aged, blind, and disabled under a State plan approved under title XVI”, and by striking out in such clause (B) “and or assistance under such plan” and inserting in lieu thereof “assistance, and, or payments”;

(7) in section 1902(a)(20)(C) by striking out “section 3(a)(4)(A)(i) and (ii) or section 1603(a)(4)(A)(i) and (ii)” and inserting in lieu thereof “section 1608(b)(1)(A) and (B)”;

(8) in the last sentence of section 1902(a) by striking out “title X (or title XVI, insofar as it relates to the blind) was different from the State agency which administered or supervised the administration of the State plan approved under title I (or title XVI, insofar as it relates to the aged), the State agency which administered or supervised the administration of such plan approved under title X (or title XVI, insofar as it relates to the blind)” and inserting in lieu thereof, “title XVI, insofar as it relates to the blind, was different from the agency which administered or supervised the administration of such plan insofar as it relates to the aged, the agency which administered or supervised the administration of the plan insofar as it relates to the blind”;

(9) in section 1902(b) (2) by striking out "section 406(a) (2)" and inserting in lieu thereof "section 406(b)";

(10) in section 1902(c) by striking out "I, X, XIV, or XVI, or part A" and inserting in lieu thereof "XVI or under an agreement under part E";

(11) in section 1903(a) (1) by striking out "I, X, XIV, or XVI, or part A" and inserting in lieu thereof "XVI or under an agreement under part E";

(12) by repealing subsection (c) of section 1903;

(13) in section 1903(f) (1) (B) (i) by striking out "highest amount which would ordinarily be paid to a family of the same size without any income or resources, in the form of money payments, under the plan of the State approved under part A of title IV of this Act" and inserting in lieu thereof, "highest total amount which would ordinarily be paid under parts D and E of title IV to a family of the same size without income or resources, eligible in that State for money payments under part E of title IV of this Act";

(14) in section 1903(f) (3) by striking out "the 'highest amount which would ordinarily be paid' to such family under the State's plan approved under part A of title IV of this Act" and inserting in lieu thereof "the 'highest total amount which would ordinarily be paid' to such family";

(15) in section 1903(f) (4) (A) by striking out "I, X, XIV, or XVI, of part A" and inserting in lieu thereof "XVI or under an agreement under part E"; and

(16) by amending section 1905(a)—

(A) by striking out "aid or assistance under the State's plan approved under title I, X, XIV, or XVI, or part A of title IV who are—" in so much thereof as precedes clause (i) and inserting in lieu thereof "payments under part E of title IV or aid under a State plan approved under title XVI, who are—",

(B) by amending clause (ii) to read: "(ii) receiving assistance to needy families with children as defined in section 406(b), or payments pursuant to an agreement under part E of title IV,"

(C) by amending clause (v) to read: "(v) severely disabled as defined by the Secretary in accordance with section 1602(b) (4)," and

(D) by striking out "or assistance" and "I, X, XIV, or" in clause (vi) and in the second sentence of such section 1905(a).

TITLE IV—GENERAL

EFFECTIVE DATE

SEC. 401. The amendments and repeals made by the preceding provisions shall become effective, and section 9 of the Act of April 19, 1950 (25 U.S.C. 639) is repealed effective, on the first January 1 following the fiscal year in which this Act is enacted; except that—

(1) in the case of any State a statute of which prevents it from making the supplementary payments provided for in part E of

title IV of the Social Security Act, as amended by this Act, the amendments made by this Act and such repeal shall not apply with respect to individuals in such State until (if later than the date referred to above) the first July 1 which follows the close of the first regular session of the legislature of such State which begins after the enactment of this Act or until (if earlier than July 1) the first calendar quarter following the date on which the State certifies it is no longer so prevented from making such payments; and

(2) in the case of any State a statute of which prevents it from complying with the requirements of section 1602 of the Social Security Act, as amended by this Act, the amendments made by title II of this Act shall not apply until (if later than the January 1 referred to above) the first July 1 which follows the close of the first regular session of the legislature of such State which begins after the enactment of this Act or on the earlier date on which such State submits a plan meeting such requirements of section 1602;

and except that section 437 of the Social Security Act, as amended by this Act, shall be effective upon enactment of this Act.

MEANING OF SECRETARY AND FISCAL YEAR

SEC. 402. As used in this Act and in the amendments made by this Act, the term "Secretary" means, unless the context otherwise requires and except in part C of title IV of the Social Security Act, the Secretary of Health, Education, and Welfare; and the term "fiscal year" means a period beginning with any July 1 and ending with the close of the following June 30.

THE PRESIDENT'S MESSAGE ON WELFARE REFORM

THE WHITE HOUSE.

To the Congress of the United States:

A measure of the greatness of a powerful nation is the character of the life it creates, for those who are powerless to make ends meet.

If we do not find the way to become a working nation that properly cares for the dependent, we shall become a welfare state that undermines the incentive of the working man.

The present welfare system has failed us—it has fostered family breakup, has provided very little help in many States and has even deepened dependency by all too often making it more attractive to go on welfare than to go to work.

I propose a new approach that will make it more attractive to go to work than to go on welfare, and will establish a nationwide minimum payment to dependent families with children.

I propose that the Federal Government pay a basic income to those American families who cannot care for themselves in whichever State they live.

I propose that dependent families receiving such income be given good reason to go to work *by making the first \$60 a month they earn completely their own, with no deductions from their benefits.*

I propose that we *make available an addition to the incomes of the "working poor,"* to encourage them to go on working and to eliminate the possibility of making more from welfare than from wages.

I propose that these payments be made upon certification of income, with demeaning and costly investigations replaced by simplified reviews and spot checks and with *no eligibility requirement that the household be without a father.* That present requirement in many States has the effect of breaking up families and contributes to delinquency and violence.

I propose that all employable persons who choose to accept these payments be required to register for work or job training and *be required to accept that work or training,* provided suitable jobs are available either locally or if transportation is provided. Adequate and convenient day care would be provided children wherever necessary to enable a parent to train or work. The only exception to this work requirement would be mothers of preschool children.

I propose *a major expansion of job training and day care facilities,* so that current welfare recipients able to work can be set on the road to self-reliance.

I propose that we also *provide uniform Federal payment minimums for the present three categories of welfare aid to adults—the aged, the blind, and the disabled.*

This would be total welfare reform—the transformation of a system frozen in failure and frustration into a system that would work and would encourage people to work.

Accordingly, we have stopped considering human welfare in isolation. The new plan is part of an overall approach which includes a comprehensive new Manpower Training Act, and a plan for a system of revenue sharing with the States to help provide all of them with necessary budget relief. Messages on manpower training and revenue sharing will follow this message tomorrow and the next day, and the three should be considered as parts of a whole approach to what is clearly a national problem.

Need for new departures

A welfare system is a success when it takes care of people who cannot take care of themselves and when it helps employable people climb toward independence.

A welfare system is a failure when it takes care of those who *can* take care of themselves, when it drastically varies payments in different areas, when it breaks up families, when it perpetuates a vicious cycle of dependency, when it strips human beings of their dignity.

America's welfare system is a failure that grows worse every day.

First, it fails the recipient: In many areas, benefits are so low that we have hardly begun to take care of the dependent. And there has been no light at the end of poverty's tunnel. After 4 years of inflation, the poor have generally become poorer.

Second, it fails the taxpayer: Since 1960, welfare costs have doubled and the number on the rolls has risen from 5.8 million to over 9 million, all in a time when unemployment was low. The taxpayer is entitled to expect government to devise a system that will help people lift themselves out of poverty.

Finally, it fails American society: By breaking up homes, the present welfare system has added to social unrest and robbed millions of children of the joy of childhood; by widely varying payments among regions, it has helped to draw millions into the slums of our cities.

The situation has become intolerable. Let us examine the alternatives available:

We could permit the welfare momentum to continue to gather speed by our inertia; by 1975 this would result in 4 million more Americans on welfare rolls at a cost of close to \$11 billion a year, with both recipients and taxpayers shortchanged.

We could tinker with the system as it is, adding to the patchwork of modifications and exceptions. That has been the approach of the past, and it has failed.

We could adopt a "guaranteed minimum income for everyone," which would appear to wipe out poverty overnight. It would also wipe out the basic economic motivation for work, and place an enormous strain on the industrious to pay for the leisure of the lazy.

Or, we could adopt a totally new approach to welfare, designed to assist those left far behind the national norm, and provide all with the motivation to work and a fair share of the opportunity to train.

This administration, after a careful analysis of all the alternatives, is committed to a new departure that will find a solution for the welfare problem. The time for denouncing the old is over; the time for devising the new is now.

Recognizing the practicalities

People usually follow their self-interest.

This stark fact is distressing to many social planners who like to look at problems from the top down. Let us abandon the ivory tower and consider the real world in all we do.

In most States, welfare is provided only when there is no father at home to provide support. If a man's children would be better off on welfare than with the low wage he is able to bring home, wouldn't he be tempted to leave home?

If a person spent a great deal of time and effort to get on the welfare rolls, wouldn't he think twice about risking his eligibility by taking a job that might not last long?

In each case, welfare policy was intended to limit the spread of dependency; in practice, however, the effect has been to increase dependency and remove the incentive to work.

We fully expect people to follow their self-interest in their business dealings; why should we be surprised when people follow their self-interest in their welfare dealings? That is why we propose a plan in which it is in the interest of every employable person to do his fair share of work.

The operation of the new approach

1. *We would assure an income foundation throughout every section of America for all parents who cannot adequately support themselves and their children.* For a family of four with income of \$720 or less, this payment would be \$1,600 a year; for a family of four with \$2,000 income, this payment would supplement that income by \$960 a year.

Under the present welfare system, each State provides "Aid to families with dependent children," a program we propose to replace. The Federal Government shares the cost, but each State establishes key eligibility rules and determines how much income support will be provided to poor families. The result has been an uneven and unequal system. The 1969 benefits average for a family of four is \$171 a month across the Nation, but individual State averages range from \$263 down to \$39 a month.

A new Federal minimum of \$1,600 a year cannot claim to provide comfort to a family of four, but the present low of \$468 a year cannot claim to provide even the basic necessities.

The new system would do away with the inequity of very low benefit levels in some States, and of State-by-State variations in eligibility tests, by establishing a federally financed income floor with a national definition of basic eligibility.

States will continue to carry an important responsibility. In 30 States the Federal basic payment will be less than the present levels of combined Federal and State payments. These States will be required to maintain the current level of benefits, but in no case will a State be required to spend more than 90 percent of its present welfare cost. The Federal Government will not only provide the "floor," but it will assume 10 percent of the benefits now being paid by the States as their part of welfare costs.

In 20 States, the new payment would exceed the present average benefit payments, in some cases by a wide margin. In 10 of these States, where benefits are lowest and poverty often the most severe, the payments will raise benefit levels substantially. For 5 years, every State

will be required to continue to spend at least half of what they are now spending on welfare, to supplement the Federal base.

For the *typical "welfare family"*—a mother with dependent children and no outside income—the new system would provide a basic national minimum payment. A mother with three small children would be assured an annual income of at least \$1,600.

For the *family headed by an employed father or working mother*, the same basic benefits would be received, but \$60 per month of earnings would be "disregarded" in order to make up the costs of working and provide a strong advantage in holding a job. The wage earner could also keep 50 percent of his benefits as his earnings rise above that \$60 per month. A family of four, in which the father earns \$2,000 in a year, would receive payments of \$960, for a total income of \$2,960.

For the *aged, the blind, and the disabled*, the present system varies benefit levels from \$40 per month for an aged person in one State to \$145 per month for the blind in another. The new system would establish a minimum payment of \$65 per month for all three of these adult categories, with the Federal Government contributing the first \$50 and sharing in payments above that amount. This will raise the share of the financial burden borne by the Federal Government for payments to these adults who cannot support themselves, and should pave the way for benefit increases in many States.

For the *single adult* who is not handicapped or aged, or for the *married couple without children*, the new system would not apply. Food stamps would continue to be available up to \$300 per year per person, according to the plan I outlined last May in my message to the Congress on the food and nutrition needs of the population in poverty. For dependent families there will be an orderly substitution of food stamps by the new direct monetary payments.

2. *The new approach would end the blatant unfairness of the welfare system.*

In over half the States, families headed by unemployed men do not qualify for public assistance. In no State does a family headed by a father working full time receive help in the current welfare system, no matter how little he earns. As we have seen, this approach to dependency has itself been a cause of dependency. It results in a policy that tends to force the father out of the house.

The new plan rejects a policy that undermines family life. It would end the substantial financial incentives to desertion. It would extend eligibility to *all* dependent families with children, without regard to whether the family is headed by a man or a woman. The effects of these changes upon human behavior would be an increased will to work, the survival of more marriages, the greater stability of families. We are determined to stop passing the cycle of dependency from generation to generation.

The most glaring inequity in the old welfare system is the exclusion of families who are working to pull themselves out of poverty. Families headed by a nonworker often receive more from welfare than families headed by a husband working full time at very low wages. This has been rightly resented by the working poor, for the rewards are just the opposite of what they should be.

3. *The new plan would create a much stronger incentive to work.*

For people now on the welfare rolls, the present system discourages

the move from welfare to work by cutting benefits too fast and too much as earnings begin. *The new system would encourage work by allowing the new worker to retain the first \$720 of his yearly earnings without any benefit reduction.*

For people already working, but at poverty wages, the present system often encourages nothing but resentment and an incentive to quit and go on relief where that would pay more than work. The new plan, on the contrary, would provide a supplement that will help a low-wage worker—struggling to make ends meet—achieve a higher standard of living.

For an employable person who just chooses not to work, neither the present system nor the one we propose would support him, though both would continue to support other dependent members in his family.

However, a welfare mother with preschool children should not face benefit reductions if she decides to stay home. It is not our intent that mothers of preschool children must accept work. Those who can work and desire to do so, however, should have the opportunity for jobs and job training and access to day-care centers for their children; this will enable them to support themselves after their children are grown.

A family with a member who gets a job would be permitted to retain all of the *first \$60 monthly income*, amounting to \$720 per year for a regular worker, *with no reduction of Federal payments*. The incentive to work in this provision is obvious. But there is another practical reason: Going to work costs money. Expenses such as clothes, transportation, personal care, social security taxes and loss of income from odd jobs amount to substantial costs for the average family. Since a family does not begin to *add* to its net income until it surpasses the cost of working, in fairness this amount should not be subtracted from the new payment.

After the first \$720 of income, the *rest* of the earnings will result in a systematic reduction in payments.

I believe the vast majority of poor people in the United States prefer to work rather than have the Government support their families. In 1968, 600,000 families left the welfare rolls out of an average caseload of 1,400,000 during the year, showing a considerable turnover, much of it voluntary.

However, there may be some who fail to seek or accept work, even with the strong incentives and training opportunities that will be provided. It would not be fair to those who willingly work, or to all taxpayers, to allow others to choose idleness when opportunity is available. Thus, they must accept training opportunities and jobs when offered, or give up their right to the new payments for themselves. No able-bodied person will have a "free ride" in a nation that provides opportunity for training and work.

4. *The bridge from welfare to work should be buttressed by training and child care programs.* For many, the incentives to work in this plan would be all that is necessary. However, there are other situations where these incentives need to be supported by measures that will overcome other barriers to employment.

I propose that *funds be provided for expanded training and job development programs* so that an additional 150,000 welfare recipients can become jobworthy during the first year.

Manpower training is a basic bridge to work for poor people, especially people with limited education, low skills and limited job experience. Manpower training programs can provide this bridge for many of our poor. In the new manpower training proposal to be sent to the Congress this week, the interrelationship with this new approach to welfare will be apparent.

I am also requesting authority, as a part of the new system, to provide child care for the 450,000 children of the 150,000 current welfare recipients to be trained.

The child care I propose is more than custodial. This Administration is committed to a new emphasis on child development in the first 5 years of life. The day care that would be part of this plan would be of a quality that will help in the development of the child and provide for its health and safety, and would break the poverty cycle for this new generation.

The expanded child care program would bring new opportunities along several lines: opportunities for the further involvement of private enterprise in providing high quality child care service; opportunities for volunteers; and opportunities for training and employment in child care centers of many of the welfare mothers themselves.

I am requesting a total of \$600 million additional to fund these expanded training programs and child care centers.

5. *The new system will lessen welfare redtape and provide administrative cost savings.* To cut out the costly investigations so bitterly resented as "welfare snooping," the Federal payment will be based upon a certification of income, with spot checks sufficient to prevent abuses. The program will be administered on an automated basis, using the information and technical experience of the Social Security Administration, but, of course, will be entirely separate from the administration of the social security trust fund.

The States would be given the option of having the Federal Government handle the payment of the State supplemental benefits on a reimbursable basis, so that they would be spared their present administrative burdens and so a single check could be sent to the recipient. These simplifications will save money and eliminate indignities; at the same time, welfare fraud will be detected and lawbreakers prosecuted.

6. *This new departure would require a substantial initial investment, but will yield future returns to the Nation.* This transformation of the welfare system will set in motion forces that will lessen dependency rather than perpetuate and enlarge it. A more productive population adds to real economic growth without inflation. The initial investment is needed now to stop the momentum of work to welfare, and to start a new momentum in the opposite direction.

The costs of welfare benefits for families with dependent children have been rising alarmingly the past several years, increasing from \$1 billion in 1960 to an estimated \$3.3 billion in 1969, of which \$1.8 billion is paid by the Federal Government, and \$1.5 billion is paid by the States. Based on current population and income data, the proposals I am making today will increase Federal costs during the first year by an estimated \$4 billion, which includes \$600 million for job training and child care centers.

The startup costs of lifting many people out of dependency will

ultimately cost the taxpayer far less than the chronic costs—in dollars and in national values—of creating a permanent underclass in America.

From welfare to work

Since this administration took office, members of the Urban Affairs Council, including officials of the Department of Health, Education, and Welfare, the Department of Labor, the Office of Economic Opportunity, the Bureau of the Budget, and other key advisers, have been working to develop a coherent, fresh approach to welfare, manpower, training, and revenue sharing.

I have outlined our conclusions about an important component of this approach in this message; the Secretary of HEW will transmit to the Congress the proposed legislation after the summer recess.

I urge the Congress to begin its study of these proposals promptly so that laws can be enacted and funds authorized to begin the new system as soon as possible. Sound budgetary policy must be maintained in order to put this plan into effect—especially the portion supplementing the wages of the working poor.

With the establishment of the new approach, the Office of Economic Opportunity will concentrate on the important task of finding new ways of opening economic opportunity for those who are able to work. Rather than focusing on income support activities, it must find means of providing opportunities for individuals to contribute to the full extent of their capabilities, and of developing and improving those capabilities.

This would be the effect of the transformation of welfare into “workfare,” a new work-rewarding system:

For the first time, all dependent families with children in America, regardless of where they live, would be assured of minimum standard payments based upon uniform and single eligibility standards.

For the first time, the more than 2 million families who make up the working poor would be helped toward self-sufficiency and away from future welfare dependency.

For the first time, training and work opportunity with effective incentives would be given millions of families who would otherwise be locked into a welfare system for generations.

For the first time, the Federal Government would make a strong contribution toward relieving the financial burden of welfare payments from State governments.

For the first time, every dependent family in America would be encouraged to stay together, free from economic pressure to split apart.

These are far-reaching effects. They cannot be purchased cheaply, or by piecemeal efforts. This total reform looks in a new direction; it requires new thinking, a new spirit and a fresh dedication to reverse the downhill course of welfare. In its first year, more than half the families participating in the program will have one member working or training.

We have it in our power to raise the standard of living and the realizable hopes of millions of our fellow citizens. By providing an equal chance at the starting line, we can reinforce the traditional American spirit of self-reliance and self-respect.

RICHARD NIXON.

THE WHITE HOUSE,
August 11, 1969

Proposed benefit schedule

APPENDIX

PROPOSED BENEFIT SCHEDULE (EXCLUDING ALL STATE BENEFITS)¹

Earned income	New benefit	Total income
0.....	\$1,600	\$1,600
\$500.....	1,600	2,100
\$1,000.....	1,460	2,460
\$1,500.....	1,210	2,710
\$2,000.....	960	2,960
\$2,500.....	710	3,210
\$3,000.....	460	3,460
\$3,500.....	210	3,710
\$4,000.....	0	4,000

¹ For a 4-person family, with a basic payment standard of \$1,600 and an earned income disregard of \$720.

BACKGROUND MATERIAL

I. THE PRESENT SYSTEM

A. FAILURES

The present welfare system has been a failure; all indications are that its future will be worse, not better. In the last decade, the costs of aid to families with dependent children (AFDC) have more than tripled. The caseload has more than doubled.

Even more disturbing is the fact that the proportion of persons on AFDC is growing. In the past 15 years the proportion of children receiving assistance has doubled—from 30 children per 1,000 to about 60 per 1,000 at present.

B. INEQUITIES

Serious inequities exist under AFDC between regions of the country, between male- and female-headed families, and between poor people who work to help themselves on the one hand and the welfare poor on the other hand.

Average benefits for a female-headed family of four persons vary from \$39 to \$263 a month.

Only 24 States provide federally matched assistance to male-headed families, and this is only done where there is an "unemployed father" in the house—one who works no more than 30 hours a week. In no State is there now federally matched assistance for a male-headed family where the father works *full time*.

The present AFDC system encourages dependency. The preferential treatment of female-headed families has led to increased family break-up. In 1940, 30 percent of AFDC families had absent fathers; today it is over 70 percent.

II. THE NEW SYSTEM

A. COVERAGE

The administration's proposed welfare reform will provide direct Federal payments to *all* families with children with incomes below stipulated amounts.

The principal new group made eligible for cash assistance under the proposal is "working poor" families headed by males employed full time. The administration's proposed system would cover *both* "dependent families," defined as those headed by a female or an unemployed father, and "working poor" families, defined as families headed by a full-time employed male.

B. BENEFIT LEVELS

1. *Families with no earnings*

The basic Federal benefit for a family of four would be \$1,600 per year, \$500 per person for the first two family members and \$300 for

each family member thereafter. A seven-person family with no earnings would receive \$2,500 per year.

2. Families with earnings

Families of four with earnings up to \$3,920 per year would be eligible for payments. Families of seven would be eligible up to \$5,720. All families would be allowed to "disregard" \$60 per month (\$720 per year) as work-related expenses—transportation, meals, clothing. Benefits would be reduced by 50 percent as earnings increase above \$720 per year.

C. AN EXAMPLE

A family of four with earnings of \$2,000 would be entitled to disregard the first \$720 in earnings.

Subtracting \$720 from \$2,000, the remainder is \$1,280. Fifty percent of this amount (\$640) is subtracted from the family's entitlement for benefits, which is \$1,600. The remainder (\$960) is added to the family's earnings of \$2,000. Its total income, therefore, would be \$2,960. (See chart II.)

A family of seven, with \$2,000 in income, using the same arithmetic, would be entitled to benefits of \$1,860 for a total income of \$3,860.

D. STATE SUPPLEMENTAL BENEFITS

In order that present benefit levels not be reduced for families aided under the existing AFDC program, the new system would require the continuation of State benefits equal to the difference between the proposed Federal minimum and a State's present benefit level. All States, however, would receive fiscal relief under the proposed welfare program.

States would not be required to supplement "working poor" families.

E. THE WORK REQUIREMENT

A basic element of the administration's welfare reform program is its emphasis on work, both a strong work requirement and the provision of incentives throughout the system for training and employment. (See chart VI.)

All applicants for benefits who are not working are required to register with the Employment Service.

Employable recipients must accept training or employment or lose their portion of the family's benefit.

F. TRAINING AND DAY CARE

To insure that employable recipients become self-sufficient, the administration's program provides a substantial increase in training opportunities and child care services. Training opportunities will be provided for an additional 150,000 welfare mothers. Child care services will be provided for an additional 450,000 children in families headed by welfare mothers.

G. ADMINISTRATION

Another important feature of the administration's welfare reform program is the national administration of the basic Federal benefit

for families. It is proposed that the administration of the system be assigned to the Social Security Administration in the Department of Health, Education and Welfare. The administration of the new system by the Social Security Administration would be handled entirely separate from its responsibility for the wage-related contributory OASDI programs.

III. COST OF THE PROGRAM

The estimated cost in the first full year of operation of the proposed welfare reform program is \$4 billion. This is additional to present Federal spending for public assistance, estimated at \$4.20 billion in fiscal year 1970.

Major cost components of the program are:

	<i>Billion</i>
1. Benefits to families-----	\$2.5
2. Adult minimum standards-----	.4
3. Training and day care to provide additional work opportunities for cash assistance receipts-----	.6
3. Other: Administration, effects on other programs, fiscal relief to States, and adjustments for lagged income reporting-----	.5
Total -----	4.0

A. BENEFITS TO FAMILIES

The estimate above of \$2.5 billion in additional spending for benefits to families is based on an inter-agency analysis of data from the OEO Survey of Economic Opportunity. The economic model for deriving this estimate uses data on 14,000 low income families and current research findings.

B. ADULT MINIMUM STANDARD

The administration's welfare reform program also establishes a Federal minimum payment level of \$65 per month for the three adult public assistance categories (aid for the blind, the disabled and the aged) and provides for the administrative combination of these programs.

Under this proposal, the Federal Government pays 100 percent of the first \$50; 50 percent of the next \$15; and 25 percent thereafter. Fiscal relief for State and local governments as a result of this Federal minimum for the adult categories is \$400 million.

C. TRAINING AND CHILD CARE

The total cost for training an additional 150,000 welfare mothers and providing child care services for an additional 450,000 children is \$623 million.

SUMMARY OF ADDED TRAINING AND CHILD CARE COSTS AND ENROLLMENTS

	Persons served (thousands)	Unit cost	Total cost (millions)
Training-----	150	\$1,110	\$165
Incentive payments-----	150	180	27
Child care-----	450	858	386
Upgrading-----	75	600	45
Total -----			623

IV. FISCAL RELIEF TO STATE AND LOCAL GOVERNMENTS

A. UNDER THE NEW WELFARE PLAN

Under the administration's proposed welfare reform program, all States receive fiscal relief. Each State is required to spend at least 50 percent of the amount spent in the base year for the present public assistance programs. No State, however, is required to spend more than 90 percent of expenditures in the base year for the four categories.

B. REVENUE SHARING

State and local governments are also aided under the administration's proposed revenue sharing program. The first full year effect of revenue sharing is \$1 billion. The amount of revenue sharing increases annually in five steps thereafter.

C. COMBINED IMPACT OF WELFARE REFORM PROPOSAL AND REVENUE SHARING

Combining the welfare reform and revenue sharing proposals, \$5 billion in new first-year funds is distributed as follows:

	<i>Billion</i>
Cash assistance benefits for the poor-----	\$2.2
Fiscal relief for State and local governments-----	1.7
Additional training and day care-----	.6
Other -----	.5
Total -----	5.0

The table attached provides State-by-State data on fiscal relief under both the administration's proposed welfare and revenue sharing reforms in their first full year of effect.

TABLE 1.—IMPACT ON STATE AND LOCAL GOVERNMENTS OF WELFARE REFORM AND REVENUE SHARING (FIRST FULL-YEAR EFFECT)

State	Revenue sharing	Fiscal relief under welfare reform	Total	State	Revenue sharing	Fiscal relief under welfare reform	Total
Alabama-----	16.1	11.9	28.0	Montana-----	3.9	1.4	5.3
Alaska-----	1.2	1.0	2.2	Nebraska-----	6.6	3.4	10.0
Arizona-----	10.1	3.4	13.5	Nevada-----	2.5	.9	3.4
Arkansas-----	9.5	6.2	15.7	New Hampshire-----	3.1	.9	4.0
California-----	112.5	179.5	292.0	New Jersey-----	31.1	25.2	56.3
Colorado-----	11.6	13.0	24.6	New Mexico-----	5.7	3.2	8.9
Connecticut-----	12.8	8.8	21.6	New York-----	117.1	43.9	161.0
Delaware-----	2.4	1.6	4.0	North Carolina-----	24.2	10.4	34.6
District of Columbia-----	3.4	4.1	7.5	North Dakota-----	3.5	.4	3.9
Florida-----	30.8	8.5	39.3	Ohio-----	41.2	32.0	73.2
Georgia-----	20.8	12.5	33.3	Oklahoma-----	12.6	19.3	31.9
Hawaii-----	4.0	3.3	8.1	Oregon-----	10.4	6.1	16.5
Idaho-----	4.8	1.0	5.0	Pennsylvania-----	53.3	43.2	96.5
Illinois-----	44.5	49.6	94.1	Rhode Island-----	4.3	5.2	9.5
Indiana-----	24.2	5.0	29.2	South Carolina-----	12.1	2.2	14.3
Iowa-----	14.6	7.0	21.6	South Dakota-----	3.9	1.2	5.1
Kansas-----	12.1	6.6	18.7	Tennessee-----	18.1	8.6	26.7
Kentucky-----	14.8	10.6	25.4	Texas-----	47.4	25.1	72.8
Louisiana-----	20.3	18.9	39.2	Utah-----	5.7	2.9	8.6
Maine-----	5.1	2.0	7.1	Vermont-----	2.4	1.2	3.6
Maryland-----	18.1	14.4	32.5	Virginia-----	20.4	4.7	25.1
Massachusetts-----	29.6	30.1	59.7	Washington-----	16.2	13.6	29.8
Michigan-----	40.8	35.5	76.3	West Virginia-----	9.0	4.5	13.5
Minnesota-----	21.5	9.3	37.8	Wisconsin-----	24.2	12.4	36.6
Mississippi-----	12.6	.9	13.5	Wyoming-----	2.1	.9	3.0
Missouri-----	20.4	18.3	38.7				
				Total-----	1,000.0	735.8	1,735.8

The CHAIRMAN. As indicated in the announcement of October 6, we will today begin to receive testimony from officials of the Administration. We will hear testimony from the Department of Health, Education, and Welfare today and testimony from the Department of Labor beginning at 10 a.m., tomorrow morning, if we conclude with these witnesses today.

Initially, we had intended to resume on Wednesday, October 22, to begin to receive testimony from the general public. However, since it is the understanding of the Chair that Secretary Finch can be here for only the morning session today, we have agreed to have him return to the committee in public hearings for further questioning if we do not conclude with the questioning this morning. That would be on Wednesday morning, October 22.

After completion of that testimony, the committee will then begin to receive testimony from the general public on that day or the day following.

In view of the scope of the hearings, the Chair again urges all prospective witnesses to consolidate their statements in order to conserve the time of the witnesses and the committee. All requests to be heard must be submitted not later than the close of business Friday, October 17, and let me add there will be no exceptions made to that closing date.

Mr. BURKE. Mr. Chairman, before you proceed, I would just like to raise a question as to why the Secretary of Health, Education and Welfare can be here only a half a day. We have the most important questions on social security legislation to consider. Can he tell us what is more important to him, where he is going to be and why he can't be with the committee during the next few days?

STATEMENT OF HON. ROBERT H. FINCH, SECRETARY OF HEALTH, EDUCATION, AND WELFARE; ACCOMPANIED BY HON. JOHN G. VENEMAN, UNDER SECRETARY; HON. ROBERT M. BALL, COMMISSIONER OF SOCIAL SECURITY; HON. MARY E. SWITZER, ADMINISTRATOR, SOCIAL AND REHABILITATION SERVICE; HON. ARTHUR E. HESS, DEPUTY COMMISSIONER OF SOCIAL SECURITY; HON. ROBERT E. PATRICELLI, DEPUTY ASSISTANT SECRETARY FOR PROGRAM PLANNING AND EVALUATION; HON. HOWARD A. COHEN, DEPUTY ASSISTANT SECRETARY FOR WELFARE LEGISLATION; AND HON. ROBERT J. MYERS, CHIEF ACTUARY, SOCIAL SECURITY ADMINISTRATION

Secretary FINCH. I will be happy to respond, Mr. Chairman.

The CHAIRMAN. We have had these matters happen before.

Mr. BURKE. I know that, but I have heard some disturbing reports that the Secretary may be making some campaign speeches out in California, and if that is true I would want to object to him being here only a half a day.

The CHAIRMAN. Well, we can't control that and, at any rate, you know, making campaign speeches, if that happens to be the case, is all a part of this business of ours of trying to stay in office and I am

sure that he must maintain the support of his people in the State of California to remain here.

Mr. BURKE. I would like to have it clarified, whether or not he feels that campaign speeches are more important than his testimony and answers to the committee's questions on social security which involves the well being of over 17 million elderly Americans.

Secretary FINCH. I would be happy to respond to Congressman Burke, Mr. Chairman.

The CHAIRMAN. Just a minute before you respond.

I do think that the Chair should recognize the witness.

Our first witness this morning is the Secretary of Health, Education, and Welfare, the Honorable Robert H. Finch.

We do appreciate having you here. I believe this is your first appearance, and we are so pleased that you could arrange your schedule to be here for the commencement of these hearings.

Mr. Utt?

Mr. UTT. Mr. Chairman, I would like to take this opportunity to welcome a fellow Californian to the committee this morning. He is a fine gentleman, with a great responsibility. And in response to my friend from Massachusetts, I would like to say that that was a rather strange complaint coming from Massachusetts where the people campaign all over the United States for everybody that happens to be running on the Democratic ticket.

The CHAIRMAN. All right.

Go right ahead, Mr. Secretary. You are recognized.

Mr. VANIK. Mr. Chairman, if I might just suggest, perhaps to expedite time, couldn't we consider the Secretary's statement as having been read and proceed to questions? That would seem to provide us an opportunity to get questions in that relate to this subject matter.

The CHAIRMAN. No; we will have plenty of opportunity to question the Secretary.

Go right ahead.

Secretary FINCH. I think, Mr. Chairman, and gentlemen of the committee, that I should first introduce my colleagues for the record: the Under Secretary, Mr. Veneman—

The CHAIRMAN. We want you to do that.

Secretary FINCH. Also, Robert Ball, the Commissioner of Social Security; Miss Switzer, the Administrator of Social and Rehabilitation Service; Mr. Patricelli, Deputy Assistant Secretary for Planning and Evaluation; Mr. Howard A. Cohen, the Deputy Assistant Secretary for Welfare Legislation.

The chairman and I did have extensive conversations with regard to the time problem that was involved here, and I did cancel a luncheon in order to make this appearance and make a preliminary statement.

I will be happy to return, as I have indicated to the chairman, to pursue these matters in as much depth and at as much length as is desired. This is, obviously, a very comprehensive piece of legislation.

We have the Under Secretary, who has been the chief architect, along with the people in the White House, in drafting this bill, together with our other support people, and the proposal, I think, will make this clear to you.

My commitment is one made many months ago, and it is a campaign commitment, so I plead guilty to that count. But I assure you that you will have plenty of opportunity to cross-examine me at great length next week, and I don't think that the delay will unduly prejudice the opportunity of the committee to proceed in good time and in good speed on this very critical legislation.

I will, in the interest of time and in the hope that we can get to some questions and answers before I have to leave for the airport, point out that because of the familiarity of the committee with the social security law, I would respectfully ask permission to have my testimony on social security entered into the record.

The CHAIRMAN. Without objection, your entire statement will be put in the record if you omit any part of it.

Secretary FINCH. Thank you, Mr. Chairman.

I do think I should spell out the full breadth of the family assistance program.

I am pleased to testify before your committee today. I know of the outstanding performance of this committee during the past 34 years in connection with social security legislation. And I have had the opportunity to observe the excellent working relationship that exists between the committee and the Department of Health, Education, and Welfare.

Over the past several months, many of us in the Department of Health, Education, and Welfare have devoted much of our time and efforts to the subject areas covered by the Social Security Act.

My presentation is not a definitive statement on the Social Security Act, but rather is an attempt to deliver an overall view of the Administration's position on necessary reforms.

President Nixon has sent several messages to the Congress this year recommending amendments to the Social Security Act. The emphasis of these proposals is three-pronged; first and principally, on jobs; second, on an assured income growing out of social security and unemployment insurance when the worker's income is cut off; and finally, on a supporting work-oriented family assistance program. These amendments propose—a sweeping and much-needed reform of assistance programs that aid families with children—changes in the assistance programs for needy adults who are old, blind, or disabled—increased social security cash benefits—a system for automatically guaranteeing that the purchasing power of social security benefits will be kept up to date with future increases in prices—broadened protection by social insurance programs—a restoration of the actuarial balance of the hospital insurance trust fund.

The new family assistance plan recognizes that everyone who can do so should have the opportunity to work and support himself and his family. The program provides for greatly expanded training opportunities, expanded facilities for children of working mothers, and greatly increased work incentives within the design of the assistance program itself.

Registration for work and training is a key part of the new approach, but even more important is the emphasis upon expanded opportunities for the individual. We do not want to continue a situation in which large numbers of people have little choice but to rely solely upon assistance payments for the support of their families. We want

rather to develop a system which gives people the opportunity and incentive to become independent and self-supporting.

We believe, too, that to the extent possible we should prevent need through social insurance rather than rely upon an assistance program to meet need after it has arisen. The worker should have the opportunity, as he works, to earn protection against the possible loss of his earnings. This is the function of social security and unemployment insurance—to give the worker and his family basic security against the loss of earned income arising because of unemployment, disability, old age, or death. Thus, the administration's proposals in the areas of unemployment insurance and social security are complementary to our recommendations in the welfare area.

Medicare, medicaid and maternal and child health programs are designed to help meet the medical needs and expenses of older people and those with low incomes and therefore are supplements to our income support program. We are proposing a number of changes in these programs which we feel will be the beginning of the control of rising costs in these programs.

Mr. Chairman, each of these proposals should be understood in context as well as individually. Therefore, I will give an overview of each of the proposals, after which other officials of the department will present a more indepth analysis of each proposal.

I will first examine the urgently needed family assistance program, then comment on social services, proceed to the social security amendments and to Mr. Ball, who will have a chart presentation, and then finish my formal statement with a discussion of rising health costs and the immediate steps we are taking within the department to control them.

First, the Family Assistance Act of 1969.

Mr. Chairman, I welcome this opportunity to discuss H.R. 14173, the proposed Family Assistance Act of 1969.

This measure is the product of months of intensive study, beginning even before the inauguration with the President's Transition Task Force. After analyzing many proposals offered by recognized experts inside and outside of the Federal Government, we have concluded that a radical reform of the structure of welfare is needed.

We sought, in designing the family assistance plan, to identify and deal directly with the most pressing problems facing public welfare today. While it is a far-reaching and fundamental reform of public welfare, the family assistance plan is a practical and pragmatic program. It is neither a universal income maintenance system, which we cannot afford at the present time, nor a guaranteed annual income, which we feel could undermine an individual's motivation for work.

This problem-solving approach, rather than the theoretical approach, highlighted the following key areas which needed immediate solution and redirection:

1. The gross inequities that exist between categories of persons equally in need under the present welfare system;
2. The gross inequities from State to State;
3. The increasingly complex and controversial management crisis in welfare; and

4. The economic incentives which in the present system weigh more in favor of continued dependency and family breakup than the reverse.

The program we support is directed toward helping needy people to help themselves through work incentives and work requirements, bolstered by expanded training and day-care opportunities; toward an elimination of the family breakup incentive; and toward the establishment of national minimum payment and eligibility standards. The program would do these things in a way that will not further add to State fiscal burdens.

Now, as to public assistance today.

In June 1969, a total of 10.2 million persons received public assistance from Federal, State and local funds. Of these, somewhat less than 800,000 were recipients of general assistance, in which the Federal Government plays no part. Among the 9.4 million persons receiving aid under federally aided programs, slightly less than one-third were in the adult categories—the aged, blind, the disabled—and nearly 6.6 million persons—over two-thirds—were recipients under the program of aid to families with dependent children.

THE ADULT CATEGORIES

In the adult categories the situation is a relatively stable one, with the caseload increasing by about only 3.5 percent in the last year. Slightly over 2 million needy aged persons received assistance in June, an increase of only 17,000 over the preceding year. Their payments averaged \$70.55 a month. However, nearly 60 percent of these persons also received social security benefits so that their total incomes were significantly higher than their assistance payments alone. Old-Age Assistance (OAA) recipients constituted 10.4 percent of the persons in the country over age 65. However, this proportion varied widely from State to State. It was 2.7 percent in Connecticut and 40.7 percent in Louisiana.

The caseload of blind recipients has been consistently about 80,000 persons during the past year. The permanently and totally disabled numbered 755,000 in June, an increase of 85,000 over a year ago. Among the blind and disabled, about 20 percent also have social security benefits.

In view of the relatively stable caseloads in the adult programs, we felt that the major problems which they present are very low benefits in some States (less than \$39.40 a month under OAA in Mississippi in June 1969, ranging up to \$116.25 in New Hampshire); and differences in eligibility requirements among the various States.

We propose to continue as a Federal-State program a combined program for needy aged, blind, and disabled persons. We propose, however, to establish for the first time, a Federal floor—\$90 a month—of income and assistance which would be assured to adult recipients in any State. This new Federal floor would act to raise benefits for about one-third of the present OAA recipients, or about 670,000 persons, and would push up benefit levels in the 13 lowest payment States, plus the District of Columbia. The \$90 floor, when aggregated on a yearly basis for an aged couple, comes to \$2,160, an amount which

is actually slightly above the poverty line of \$2,100 for an aged couple as that line has been recently redefined for 1968.

We make this proposal for a federally established income floor for the adult categories in recognition of the fact that neither work incentives nor family stability incentives are the answer to the dependency of these people. We must do what we can through social and rehabilitation services to bolster self-support and self-care capacity among these recipients, but in the last analysis it must be our obligation to move toward an adequate level of income support for the aged, blind and disabled. Adequate income support where it is necessary is one of the measurements of a just and humane civilization.

We further propose to make uniform the definitions of resources used in determining family eligibility under the program. Certain options for administration of these payments are also opened up to harmonize this system with the family assistance plan, and those options will be discussed later.

In order to make these reforms possible we are proposing a liberalized formula for Federal financial participation under which the Federal Government would provide an average of the first \$50 per month to recipients, half of the next \$15, and one-fourth of additional amounts. The formula for Federal participation would, of course, apply only to payments actually made. This would provide substantial fiscal relief to most States.

THE AFDC PROGRAM

Most of the controversy around welfare programs centers around the program called AFDC—aid to families with dependent children. In this program costs have more than tripled since 1960 to an estimated total of more than \$4 billion in this fiscal year. The Federal Government will pay about half of this cost. During the same period, the number of recipients has more than doubled to a present total of more than 6.5 million.

The rate of growth has been alarming, verging recently on the catastrophic. It took 15 years for AFDC payments to reach the half billion dollar mark, and another 10 years to surpass a billion. But what took place from 1935 to 1960 was duplicated in the short period from 1960 to 1967, when another billion dollars was added to payments. And in the next year alone payments soared by a half billion dollars.

Even more disturbing is the fact that the proportion of persons on AFDC is growing. In 1955, 30 children out of each 1,000 received aid. In June 1969 more than 60 children out of each 1,000 received aid. In studying the program, our estimates indicated that by the fiscal year 1975, costs would again double and numbers of persons would increase by another 50–60 percent.

In spite of its growth and its cost, the program is beset by inequities. Children of a parent who has died, is incapacitated, or is absent from the home are eligible in all States. Those with an unemployed father are eligible in about half the States. Those with a father employed full time are not eligible in any State. Thus a premium is placed on a home breaking up and an incentive exists for the breadwinner to leave, as all of us know.

Many fathers work full time but still do not earn as much as is available to families on welfare in their neighborhood. The discontent of the working poor is understandable, and destructive to the fabric of our society. The exclusion of the working poor is also the central structural defect of the system since it is what creates the family breakup incentive and undermines the rewards of work. This exclusion also has begun to take on ominous and socially polarizing racial overtones, for AFDC recipients, those who are helped, are about 50-percent nonwhite while the working poor, those who are excluded, are 70-percent white.

The State-to-State inequities which I described with respect to the adult programs are magnified in the AFDC program. In June, a recipient in Mississippi averaged \$10.20 per month. In New Jersey, recipients got an average of \$66.40. In Indiana, 22 children out of each 1,000 received aid. In New York, 107 children out of each 1,000 were helped.

In sum, in spite of the size of the effort, AFDC has engendered bitterness and resentment, and I think that a great part of the polls that have been conducted by Gallup and the others show a discontent with the present system, and perhaps, not in all cases, not a full public understanding of this very complex program. But there is a strong desire to have a change.

The poor who receive it have organized to fight those who administer it.

Many poor who are eligible continue to deprive themselves rather than submit to its indignities.

The middle class, far removed from the need for welfare and the people who receive it, is angry both at the cost in taxes and at the behavior attributed to some welfare recipients.

The large cities resent the flow of poor people from rural areas where welfare benefits are often inhumanely low. I don't mean to suggest that necessarily, in all cases, these people move to large cities in order to get welfare, but they go there thinking they will get better jobs, and when they get there they can't get those jobs and they go on welfare in many cases.

State governments, as all of us are well aware, are staggered by the fiscal impact, are staggered by their problems in their metropolitan districts and by the other priorities that they are trying to establish and meet, and are crying out for relief.

So, against this background, we concluded that major structural reform was necessary to correct, insofar as possible, the inequities of the old system. The first priority of the family assistance plan has been to remove, or at least minimize, the disincentives and inequities of present welfare policies. It is designed to strengthen family life and to provide strong and effective incentives for employment. This strategy may not pay off immediately, but unless this investment is made now, fundamental reform will be even more expensive in the future.

The family assistance plan also provides some fiscal relief for hard-pressed States and at the same time raises benefit levels for recipients in those areas where they are lowest. But these goals, it must be said, cannot be our first priority at the present time. There are others who would invest more of our available resources in benefit increases or in a federalization of the program designed to provide maximum fiscal relief to the States. These are not easy priorities to weigh and balance, but we have concluded that—while those other approaches might be

politically more popular in many respects—they only pour more Federal money into a system doomed to failure. The system must be changed, not just its payment levels or the division of labor between the Federal and State Governments within it.

The family assistance plan will provide:

1. HELP FOR THE WORKING POOR

We propose to replace the present AFDC program with a new program, "the family assistance plan," which would provide direct Federal payments to all needy families with children. Unlike the present program of aid to families with dependent children, the new plan would for the first time provide Federal benefit payments for families headed by full-time male workers as well as for families headed by a mother or an unemployed father. No State today provides assistance under AFDC for a family headed by a father who is working full time—even though the family may be living in poverty. This is the group of some 2 to 3 million families which we call "the working poor." A few States have already undertaken this structural reform on their own initiative by providing help through their general assistance programs to some or all of the working poor.

The Federal benefits would also be provided throughout the Nation to families headed by unemployed fathers. Today such assistance is available in only 25 of 54 jurisdictions. Eligibility of the working poor for assistance and a nationwide program for families headed by unemployed fathers are the critical steps toward eliminating the harshest inequities of the present system. Without including the working poor, fundamental improvement of the work and family stability incentives is impossible, in our opinion.

2. THE FAMILY UNIT

As indicated by the term "family assistance," the new program is based upon the existence of a family unit. The presence of a child in the household is the key to eligibility in this proposal. When a family meets the income and resources tests, payments under the plan would be made for all members who are related by blood, marriage, or adoption, as long as there is at least one family member who is under age 18, or under 21 if regularly attending school.

3. TREATMENT OF RESOURCES

Under the present public assistance programs, families with substantial resources are not eligible for payments if they could become at least temporarily self-supporting by converting all or part of their resources into cash or income-producing property. This concept and rationale is retained in H.R. 14173. Families with more than \$1,500 in resources other than their homes, household goods, personal effects, and other property essential to their means of self-support are not eligible for assistance payments under this proposal.

4. BASIC AMOUNT OF PAYMENT

The basic yearly Federal payment for an eligible family would be at the rate of \$500 a person for the first two family members and \$300 for each additional member, less whatever nonexcluded income the family has. This would establish a Federal income floor of \$1,600 per year for a family of four with no other income.

5. TREATMENT OF INCOME

Generally, assistance benefits would be reduced by \$1 for each \$2 of earned or unearned income that the family has. This kind of offset would provide an incentive for the family to work and increase its earnings. The treatment of unearned income on the same basis as earned income eliminates an important inequity in the present law. Under AFDC, since unearned income is offset dollar for dollar against benefits, while benefits are reduced by 67 cents for a dollar of earned income (after the first \$30 per month of earnings, which are completely excluded), families with the same incomes are treated very differently in terms of eligibility and amount of benefits depending on the source of their income.

6. INCENTIVES TO WORK

As an additional work incentive, and to cover the costs of going to work, the first \$180 of earnings in a calendar quarter (\$720 a year) would be completely excluded or disregarded in determining the amount of payments for a family.

An example might be useful at this point. Suppose a family of four had earnings of \$2,000 a year. The family would first be allowed to disregard \$720. Then 50 percent of the remaining \$1,280 of earnings would be disregarded. The family's payment of \$1,600 would then be reduced by the nondisregarded earnings of \$640 (50 percent of \$1,280), giving the family an assistance payment of \$960 and—combined with the earnings of \$2,000—a total income of \$2,960.

There would not be a reduction in the amount of payments to take account of the value of food stamps and other public assistance or private charity.

7. FAMILIES HELPED TO BECOME SELF-SUFFICIENT

The new system is designed to fulfill the mandate of the President that Government has "no less of an obligation to the working poor than to the nonworking poor; and for the first time, benefits would be scaled in such a way that it would always pay to work."

But the built-in guarantee that people would always be better off by working would be bolstered by strong work requirements in the system itself. Members of families that apply for assistance payments under the plan would be required to register for employment or training with the local public employment office and to accept training or a suitable job opportunity when offered. Failure to register or accept

such a job or training opportunity would result in termination of the individual's benefits. All able-bodied adult family members would be subject to these provisions, with certain defined exceptions; the major ones involve exemptions for mothers with children under 6 years of age and for mothers where the father is present in the home as the primary worker.

The rationale for these provisions is well known to this committee, which initiated similar requirements as part of the 1967 amendments to the Social Security Act. It was well stated in the President's message to the Congress on August 11:

. . . there may be some who fail to seek or accept work, even with the strong incentives and training opportunities that will be provided. It would not be fair to those who willingly work, or to all taxpayers, to allow others to choose idleness when opportunity is available. Thus, they must accept training opportunities and jobs when offered, or give up their right to the new payments for themselves. No able-bodied person will have a "free ride" in a Nation that provides opportunities for training and work.

To make these work incentives and requirements effective, we are seeking a major expansion of our job training, employment and child care programs. Family members referred for training and accepted in a program will receive a monthly training allowance of \$30 in addition to their family assistance benefits and supplementary State payments, or the normal manpower training allowance in lieu of these if it is higher. Over \$600 million is being requested for these elements, of which \$386 million is for the child care component, and we will be joining with the Department of Labor in a new interdepartmental mechanism to make these programs do the job. Secretary Shultz will elaborate on this in his testimony, Mr. Chairman.

CHILD CARE

The provisions for child care and supportive services under H.R. 14173 are an essential supporting element in our efforts to make it possible for welfare recipients to obtain training and employment. It is an established fact that inadequate care of the children of a trainee or employee can result in the early withdrawal of that person from the labor market, and the absence of child care can often mean no initial participation. Past experiences in programs sponsored by the Labor Department and the Office of Economic Opportunity have demonstrated the difficulties of the lack of day care. Particularly tragic have been the cases in which women have enthusiastically entered into training programs with day care provided, only to discover that the day care disappears when they are ready to go to work.

Beyond the value of the day care to the working parent there are enormous benefits which accrue to the child who is enrolled in a comprehensive child development program. We now know that the child of poverty needs far more than custodial care if developmental deficits are to be overcome. It is this type of comprehensive child care, involving educational, medical, dental, nutritional, and follow-up activities, that is contemplated by the President's recommendations.

There could also be substantial benefits to those at the opposite end of the age spectrum, the Nation's elderly. Among our Nation's older population there is a tremendous reservoir of men and women talented in working with children. It has been the experience of the Depart-

ment of Health, Education, and Welfare, in administering the foster grandparents program and other programs employing the elderly to serve children, that increased opportunities for interaction between the elderly and children can not only provide a needed income supplementation for the elderly, but can have beneficial effects for both age groups.

A family receiving benefits will be eligible for the child care services whenever such care is necessary to permit an adult member to undertake, or continue in, training or employment. This care may be provided in the child's own home, in a family day care home, or in group day care.

New ground is being broken by the proposal to provide grants directly to State or local public agencies or nonprofit private agencies or organizations, and to contract with public or private agencies or organizations to provide such child care. The need for day care is so great that we believe it will be necessary to use a wide variety of competent organizations.

I believe that this provision opens the door to a wider utilization of resources than we have been able to obtain in the past. It enables the Federal Government to take the direct initiatives to get the program moving and to assure the effectiveness of the training and employment components. The same provision would also enable the Federal Government to contract with businesses, industry, and labor unions to provide day care services for the children of their employees and members who have been involved in the family assistance program. We have long been seeking ways to expand the participation of these groups in the provision of day care services, because of the obvious benefits to the employer, the employee, and the child.

H.R. 14173 would fund up to 90 percent of the cost of child-care projects, and would permit the 10 percent non-Federal share to be provided in the form of services or facilities when approved by the Secretary. Our experience has been that States and local communities have all too often been unable to undertake day care projects because of their inability to provide the 25 percent non-Federal or local share under present law.

In the past, programs have been jeopardized or shelved because the projects in local communities could not afford to finance the alterations, remodeling, or renovation of facilities necessary to meet local licensing standards. H.R. 14173 authorizes funds to be used for these purposes.

The proposal also authorizes the Secretary to require families to pay for all or part of the cost of child-care services when there is an ability to do so. However, the Secretary may prescribe regulations which permit the family to deduct all or part of such costs from the the earned income which otherwise would reduce the assistance payment.

The President has made a national commitment to the needs of children in the vital first 5 years of life. H.R. 14173 would help the Nation take considerable strides toward fulfilling this commitment. Calling for an expenditure of \$386 million for the first year of operation, the bill provides for 300,000 school-age children to receive services after school and during the summer months, at an estimated cost of \$400 per child. In addition, 150,000 preschool children could receive full-day services, at a cost of \$1,600 a child. The balance would be applied

to research and demonstration projects, to the training of personnel and to alteration or renovation of facilities.

I should like to stress that in all phases of the implementation of this legislation it is our firm and committed intention to work closely with the appropriate State agencies to coordinate all day-care efforts under State and local auspices.

STATE SUPPLEMENTAL PAYMENTS

We recognize that the new Federal income floor of \$1,600 per year for a family of four (\$133.33 per month) is not adequate to support needy families without other sources of income. Nevertheless, it represents a substantial improvement in the level of payments now made in eight States, and could be made more adequate when budget conditions permit. To assure the maintenance of present payment levels for families receiving public assistance, States that now provide a level of assistance higher than the proposed Federal floor would be required to pay the difference between the Federal floor and what they are now paying. In eight States, the new family assistance payments would exceed the present Federal-State payments under AFDC—in some cases by a wide margin.

The AFDC payment for a family of four is \$133 per month or less in the following States as of July 1969:

Alabama	-----	\$81. 00
Arkansas	-----	100. 00
Georgia	-----	133. 00
Louisiana	-----	119. 00
Mississippi	-----	70. 00
Missouri	-----	130. 00
South Carolina	-----	99. 00
Tennessee	-----	129. 00

On the average, 42 States will be required to supplement families above the Federal minimum floor. This supplementation is a requirement that States must meet to continue to receive Federal funds to help finance other Federal-State welfare programs, including the adult category programs, maternal and child health and crippled children's programs, social services, and medicaid. These States will be required to supplement Federal payments to families eligible under AFDC and AFDC-UF (unemployed father) programs, but they will not be required to supplement payments to the new "working poor" recipients.

COSTS OF THE PROGRAM

The estimated new Federal cost for all the proposals included in the proposed Family Assistance Act is \$4.4 billion per year. This estimate is based on data for calendar year 1968 and assumes 100 percent program participation by eligible families and persons. The \$4.4 billion is the incremental or new cost of the program, and is in addition to the \$3.2 billion in Federal funds spent on welfare in 1968.

This figure of \$4.4 billion is higher than the \$4 billion estimate in the President's message of August 11, largely as a result of the recent decision to treat unearned income like earned income in the "disregard" provision.

The following table shows the cost estimates for each of the proposed act's major provisions:

Provision	<i>Added Federal cost (in billions)</i>
Family assistance payments-----	\$3.0
Adult public assistance changes-----	0.4
Federal payment to States (part E)-----	0.1
Training and day care-----	0.6
Administration and other-----	0.3
Total -----	\$4.4

Being particularly conscious of the difficulty of producing reliable cost estimates in this field, and mindful of the variations of the actual experience from the projections which have been provided to the Congress in previous years, we have taken extreme care in arriving at these figures. The methodology used was worked out under the leadership of the Bureau of the Budget in an interagency procedure involving this department, the Department of Labor, the Office of Economic Opportunity, the Council of Economic Advisers, and the President's Commission on Income Maintenance. The most recent survey data on personal income available to the Federal Government was used.

Nevertheless, we have thought it prudent to request that an entirely independent estimate of the critical item, the family assistance payments costs, be made by the chief actuary of the Social Security Administration. That estimate shows a net cost of \$3.5 billion for family assistance payments for calendar year 1971, a figure reasonably close to the calendar year 1968 figure of \$3 billion produced by the interagency group. We hope to have that latter figure brought up to date in 1971 terms very shortly and will supply it to the committee in a very few days.

In light of this double-checking procedure, and given the difficulty of estimating costs on a new program of this magnitude, we feel reasonably confident in suggesting that the payment costs of the Family Assistance Plan will fall in the range of \$3 billion to \$3.5 billion in 1971.

FISCAL RELIEF TO STATE AND LOCAL GOVERNMENTS

Under the administration's proposed welfare reform system, all States would receive some fiscal relief. For each of the first 5 years after enactment, each State would be required to spend at least 50 percent of the amount that it would have spent under the present public assistance programs if they were continued. No State, however, would be required to spend more than 90 percent of the expenditures it would have incurred in any of these 5 years under existing law. Thus, fiscal relief to an individual State under this 50-90 rule will vary between 10 percent and 50 percent of what it would spend under existing law.

ADMINISTRATION OF THE FAMILY ASSISTANCE PLAN

The major job of administering the family assistance plan will be performed by the Social Security Administration of the Department of Health, Education, and Welfare.

The Social Security Administration has developed over the past 34 years an expertise in the delivery of cash payments on a regular basis to millions of Americans. This experience and expertise will be brought to bear on many of the administrative problems in the family assistance plan, but I want to make it very clear that this would be totally apart and not involved with trust funds in any way.

In determining initial and continuing eligibility, initial reliance would be placed upon detailed statements provided by applicants. Recipients of family assistance payments would be required to periodically report changes in income, family composition, and other factors related to eligibility and amount of benefits. The Social Security Administration would use the regular reports of earnings it receives in the course of administering the social security program to verify past and present earnings and estimates made in the applicant's declaration of income. In-depth verification would normally be done on a sample basis, but would be used on a wider scale if experience indicated a need to do so.

MAJOR EFFECTS OF THE WELFARE REFORMS

By combining powerful work incentives and requirements, by including the working poor, by allowing a family to disregard \$60 per month for work expenses, and by requiring that able-bodied adults register for training or employment, the family assistance plan would help families to help themselves.

That is why I stress, again, the plan is not an income guarantee, but rather a program of support for those who demonstrate a willingness to help support themselves.

By treating male-headed and female-headed families equally, the family assistance plan would remove a major incentive for a father to leave home so that his family could qualify for welfare. In fact, the family assistance plan provides an incentive for the father to remain at home, because his presence increases the amount of the family's total benefit. Also, the provisions creating eligibility for assistance to families headed by a working male should reduce the incentive for employed men to separate from their families.

By establishing a national minimum payment and national eligibility standards, the plan would reduce the inequities of the present program. In every State, the Federal payment for a family of four with no income would be \$1,600, and when benefits under the President's food stamp proposal are taken into account, the value of the assistance to such a family would be about \$2,350 per year. In eight States, accounting for about 20 percent of present recipients, family payment levels would be increased. The new income floor would provide aged couples with an income slightly above the current poverty line.

The family assistance plan, combined with the Manpower Training Act, would provide a simplified and decentralized framework within which expanded training and day-care facilities would greatly broaden the opportunities for assistance recipients to become self-sufficient, economically productive contributors to our economy. Over 150,000 new training opportunities, along with 450,000 quality child-care positions, would be funded under this plan.

By providing for a new and separate revenue-sharing program along with the 50-90 rule, the plan would assure the States desperately needed fiscal relief. Furthermore, through creation of a Federal program to cover the working poor and prevent their slipping into dependency, the States would be relieved of what might well have been the burden of increases in welfare costs.

In summary, the family assistance plan will, for the first time, insure minimum standards of payments for families with children wherever they live. It will establish a new minimum standard of \$90 a month for the aged, blind, and disabled. It will help able-bodied people become self-sufficient. It will provide training and work placement opportunities. It will provide needed fiscal relief for the States. It will remove the economic incentive in the present welfare system for families to split apart.

We believe this comprehensive program provides the best vehicle for this Nation to help break the poverty cycle. As the President said in his August 11th message, "We have it in our power to raise the standard of living and realizable hopes of millions of our fellow citizens. By providing an equal chance at the starting line, we can reinforce the traditional American spirit of self-reliance and self-respect."

SOCIAL SERVICES

Mr. Chairman, the major emphasis in this discussion has been, properly I think, on income maintenance. We are mindful, however, of the need for social and rehabilitation services as an essential corollary to an effective income maintenance program. The complexity of the problem faced by assistance recipients and other low-income persons often seriously affects their ability to work, to care for themselves, and to provide necessary care for their children.

The family assistance plan amendments provide, basically, for continuing the present arrangements for services. Our experience since the 1962 and 1967 legislation, however, indicates a need for improvements. In the development and planning work now being done, we are reconsidering the principles upon which we should base our service program, and we are analyzing the community resources which could be brought into the picture. We are convinced that, at least for services, coverage should not be limited to those who receive public assistance. There are many persons who are not public welfare recipients but for whom social and rehabilitation services can be as helpful as they are for public assistance recipients. Services at an appropriate time may avert the need for assistance.

We are also very much concerned about the situation with respect to foster care and adoption services. We believe that we must find ways to provide suitable help and leadership in these basic child welfare functions.

Another matter to which we are directing our efforts is the coordinating of the services program more closely with the resources of the State and local vocational rehabilitation agencies. Those agencies have a fine record of achievement in the rehabilitation area. We want to make full use of their resources. The family assistance plan recognizes this and provides for the referral of persons to a

vocational rehabilitation agency if they are not sent to employment offices because of incapacity or disability.

We are aware of the interest of this committee in this matter as indicated by the 1962 and 1967 amendments. I want to assure you of the deep concern of this administration in these fields, and we will be sending you definite legislative recommendations in the near future.

These problems are high on our agenda. We are now working on ways to develop a more effective service program.

SOCIAL SECURITY

Mr. Chairman, let me turn next to the social security proposals. I will discuss the highlights of the President's recommendations for social security and then later Commissioner Robert M. Ball will give a more detailed presentation.

The administration bill is H.R. 14080, introduced by the minority leader, Mr. Gerald Ford of Michigan, and companion bills H.R. 14162 and H.R. 14134, introduced by Representatives Collier and Chamberlain respectively. My Byrnes and Mr. Bush have introduced identical bills except that their bills would have an effective date of January 1970, instead of March 1970, for the 10-percent increase in cash benefits payments.

SOCIAL SECURITY BENEFIT INCREASE

The President has recommended a benefit increase to bring the benefits up to date with increases in the cost of living that have occurred since the last benefit increase, in February 1968.

The increase would apply to all beneficiaries, including those getting the special payments for uninsured people age 72 and older. Under the proposal, effective for March 1970, benefits would be increased for all the 25 million beneficiaries. The total additional benefit outlays for the first full calendar year in which the increase is effective would be approximately \$3 billion.

AUTOMATED COST OF LIVING INCREASE

Beyond the initial 10-percent increase, the President has recommended that provision be made in the law for social security benefits to be automatically adjusted to take account of future increases in the cost of living. The platforms of both political parties recognized the need to have a way of keeping the social security program automatically up to date. Such an automatic adjustment system would increase the security of the one out of every eight people in the country who now receives monthly social security cash benefits. The automatic provision would also adjust the benefits for the millions of future beneficiaries whose major source of income could well be their social insurance payments under social security. Because of the time lags that have occurred between past cost-of-living adjustments of benefits, the purchasing power of the benefits has been seriously decreased between benefit increases. With automatic adjustments, the changes necessary to restore purchasing power will be on a more current basis.

The administration proposal finances the automatic increases in benefits without increasing social security contribution taxes. This can be done so long as the contribution and benefit base—the maximum

amount of annual earnings counted for social security purposes—is increased from time to time. The legislation we support contains a provision to automatically adjust this base in the future to keep pace with increases in earnings levels.

H.R. 14080 also includes important changes in the social security retirement test—the provision under which benefits are not paid in full if a beneficiary has substantial earnings. This provision has been the object of widespread criticism.

The bill provides for replacing the present dollar-for-dollar reduction in benefits which now applies to earnings above \$2,880 in a year with a provision under which there would be a \$1 reduction for each \$2 earned. With this change people would have an incentive to earn more because the more they earn the more spendable income they would have.

The President also recommends updating the retirement test to take account of increases in earnings levels. It is proposed that the amount a person can earn in a year without having any benefits withheld be raised from \$1,680 to \$1,800, and then automatically adjusted upwards in future years as earnings levels rise.

The recommended changes in the retirement test would benefit approximately 1.1 million people. Additional benefits of \$330 million would be paid for months in calendar 1971.

CONTRIBUTION AND BENEFIT BASE

The President is recommending that the social security contribution and benefit base be increased in 1972 from the \$7,800 now in effect to \$9,000. This change will very closely maintain the relationship between the base and the general level of earnings that has prevailed since the early 1950's. As indicated earlier, he also recommends that after 1972 the base be kept up to date with rising earnings levels in the future.

INCREASES IN WIDOW'S BENEFITS

Under present law, a widow who begins receiving benefits at age 65 is entitled to 82½ percent of the amount of the spouse's primary benefit. Under this proposal, such a widow would be entitled to 100 percent of the spouse's primary benefit. The 82½ percent rate will continue to apply to widows going on the rolls at age 62, with graduated proportions for ages above 62 and below 65.

An estimated 2.7 million people would have their benefits increased under this provision. On the average, the increase would amount to \$17 per month (in addition to what widows would get under the 10 percent general benefit increase). Additional benefit payments in the first 12 months under the provision are estimated at \$580 million.

UNIFORM METHOD OF COMPUTING BENEFITS FOR MEN AND WOMEN

Under present law, the number of years over which a man's average monthly earnings (on which his benefits are based) and his eligibility for benefits are determined are figured up to age 65. For women these determinations are made up to age 62.

The President has recommended that the method of computing benefits for men and women be made uniform—as of age 62. As a result, the

treatment of men and women workers under the benefit provisions would be the same; and the retirement benefits payable to men, the benefits payable to their wives, and the benefits payable to survivors of men who live beyond age 62 would be increased.

About 5 million people—workers, dependents, and survivors—would have their benefits increased because of the change in computing the average monthly wage. In addition, about 100,000 people—75,000 men age 62 and over and 25,000 dependents—would become newly eligible for benefits because of the liberalized insured-status requirement for men age 62 and over. Additional benefit payments in the first 12 months are estimated at \$380 million.

OTHER SOCIAL SECURITY PROPOSALS

We are also proposing a number of important but less far-reaching improvements in the social security program. The bill would provide benefits for people disabled since childhood where the disability began before age 22, rather than age 18 as under present law. The bill would also provide for the payment of benefits to the aged dependent parents of retired or disabled workers. Under present law, parent's benefits are payable only to the dependent parents of insured workers who have died. And, finally, the bill would extend the \$100 a month noncontributory wage credit for military service that was provided in the 1967 social security amendments for members of the Armed Services after 1967. Under the bill these credits would be available for the period from 1957, when regular social security coverage of members of the Armed Forces began, through 1967. About 190,000 people would be immediately affected by these three proposals, and additional benefit payments in the first 12 months would be about \$60 million.

FINANCING

The President's recommendations include financing provisions that would cover the cost of the proposed improvements in the social security program and correct the present actuarial deficit in the hospital insurance program. Moreover, a revised schedule of contribution rates in the cash benefits program would reduce the very large accumulations of income over outgo that would result from the schedule in the present law.

The hospital insurance trust fund requires additional income over and above that scheduled under present law in near-future years. Without the proposed increase in the earnings base and the proposed speeding up of the scheduled increases in contribution rates for hospital insurance, the trust fund for that program would be depleted during fiscal 1973. As a result of the proposal to put into effect in 1971 the 0.9-percent hospital insurance contribution rate for workers and employers (each), now scheduled for 1987, and as a result of increasing the earnings base, the hospital insurance trust fund would grow to an estimated \$5.2 billion at the end of fiscal 1973.

On the other hand, the present schedule of contribution rates for old-age, survivors, and disability insurance would, even with substantial benefit increases, result in very large-scale growth in the size of the trust funds for these parts of the social security program. Under present law the cash benefit trust funds would increase from an estimated

\$38.7 billion at the end of the present fiscal year to about \$75 billion at the end of fiscal 1973. Under the President's proposal the trust funds would reach \$52.6 billion at the end of fiscal year 1973.

The postponement of the scheduled rate increases for the cash-benefits part of the social security program is consistent with past decisions by this committee and the Congress to delay scheduled increases in the rates to avoid unnecessarily large increases in the cash benefit trust funds.

Overall, the combined contribution rates for both hospital insurance and cash benefits would be somewhat lower than the schedule in present law through 1976 and then the same as present law from then on.

In summary, the improvements we are recommending in social security today are substantial and important measures. We propose to bring benefit payments up to date and we propose to make sure that they stay up to date, automatically tied to the cost of living. We are also proposing important improvements in benefit protection for men workers and for widows and in other ways proposing to remove inequities in the system.

We are continuing to study all aspects of the social security program. The statutory Advisory Council on Social Security that I appointed in May is now conducting an extensive review of the social security programs, and we are looking to this Council for its recommendations on what further improvements might be made in the social security program. As the President said in his message on social security on September 25, "I emphasize that the suggested changes are only first steps, and that further recommendations will come from our review process."

HEALTH COST EFFECTIVENESS

Medicare and medicaid have made major contributions over the past several years toward the availability of, quality of, and access to medical care for large numbers of people who are elderly or medically needy. The rising demands for medical care from the general population, combined with the newly created ability of the elderly and medically needy to financially compete for medical care, have placed great stress on inadequately and unevenly distributed manpower, facilities, and services. This has contributed to rapidly escalating medical care costs. Public and private action is needed to arrest the inflation in the health industry and to improve the health care system so that high quality medical care will be available at prices people can afford.

We are forwarding the Health Cost Effectiveness Amendments of 1969 today to continue efforts already taken to improve utilization of existing health service capability, encourage better planning, and achieve more effective cost control.

The main provisions would encourage voluntary and State planning for health facilities and provide greater authority and flexibility to engage in incentive reimbursement experiments to create incentives for efficiency and economy. They would also strengthen our ability to control some of the abuses of the programs.

These proposals, which can be discussed in greater detail by Commissioner Ball and Arthur Hess, Deputy Commissioner of Social

Security and staff director of the task force on medicaid and related programs, are addressed to the following specific items.

1. Tying depreciation payments to State health planning.
2. Making corporate planning a condition of participation.
3. Expanding authority for reimbursement experimentation.
4. Barring providers and physicians who abuse the program.
5. Paying customary charges if less than cost.
6. Withholding payments where utilization review finds admission is not warranted.
7. Improving authority to recover overpayments in medicare.

TASK FORCE ON MEDICAID AND RELATED PROGRAMS

While both medicare and medicaid have moved toward achievement of their goals, their problems differ significantly. Medicare is operating on a firm program and administrative base, with its major problem being one of escalating medical costs and prices, particularly in the hospital field, where 70 percent of cost is labor. Medicaid, on the other hand, in addition to the inflation problem, has experienced serious deficiencies in management resources. Difficulties in administration nationally are exacerbated by complexities in the Federal-State relationships, wide variations in eligibility and scope of service and unpredictability in covered, need for, and availability of services.

In recognition of the serious and growing problems under the medicaid program and to assist the Department in making major efforts to strengthen and improve the current program, I appointed a task force on medicaid and related programs in July, chaired by Walter J. McNerney. The task force is concerned both with problems that are amenable to short-range solutions through administrative action and with technical changes in the areas of management, effectiveness of use, cost and eligibility. It will also consider solutions that might require—in fact will require—fundamental changes in legislation.

Structural reforms in the medicaid program are being studied and may be necessary to assure health care services for low-income families and individuals. However, there are some improvements that can be made in the short run to overcome some of the problems.

The task force has worked closely with departmental staff and has kept me closely informed about the nature of possible short-range recommendations. Consistent with task force recommendations, the department will be moving rapidly to strengthen the management and staffing of the title XIX program, to develop the necessary policies and regulations on standards and on utilization review, to encourage the development and implementation of adequate information systems and to provide technical assistance to the States. We expect that some of the task force recommendations will produce legislative proposals to improve the medicaid program and make service more efficient and economical for assistance recipients.

They have been meeting regularly, and I think we will have within a very few weeks the first interim report of the McNerney committee.

Mr. Chairman, in this testimony I have outlined the legislative proposals to improve and strengthen our social security and public as-

sistance programs, as well as proposals to help control health care costs. I strongly urge the enactment of these proposals.

With your permission, I would like to ask Commissioner Ball to make his chart presentation with regard to the social security proposals, or I am open to questions, whichever the Chair and the committee prefer.

The CHAIRMAN. Mr. Ball, we are glad to have you back before the committee. You have been here on many occasions in the past, and you are recognized.

Mr. BALL. Thank you, Mr. Chairman.

I think we might move the charts up some if we can take just a couple of minutes.

The CHAIRMAN. All right.

Mr. BALL. Mr. Chairman, while they are moving these charts in so that the committee can see them better, I would like to say that we have the charts in small size in the green book—it is that book that the Chairman has in his hand. I hope there is a sufficient number for the audience, so that they can follow the presentation from their small charts, because the big charts will be turned toward the committee.

(The charts referred to follow:)

SOCIAL SECURITY CHARTS



1969 LEGISLATIVE RECOMMENDATIONS

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Social Security Administration

OCTOBER 1969

LEGISLATIVE CHARTS

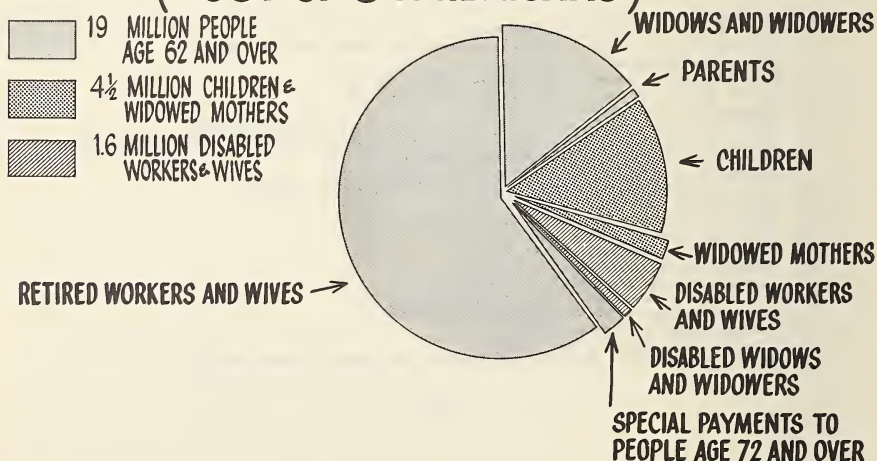
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SOCIAL SECURITY PROPOSALS

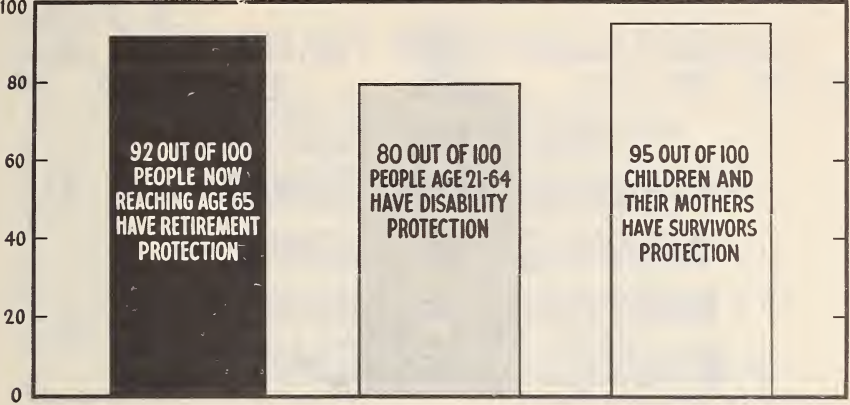
1. 10% BENEFIT INCREASE
2. INCREASE IN EARNINGS BASE TO \$9000
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4. FUTURE AUTOMATIC ADJUSTMENT OF BENEFITS, EARNINGS BASE, AND RETIREMENT TEST
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10. MODIFICATION IN CONTRIBUTION RATE SCHEDULES

HIGHER BENEFITS FOR OVER 25 MILLION PEOPLE (1 OUT OF 8 AMERICANS)



INCREASED SOCIAL SECURITY PROTECTION FOR NEARLY ALL WORKERS AND THEIR FAMILIES -- 92 MILLION WORKERS WILL CONTRIBUTE TO SOCIAL SECURITY IN 1969

PERCENT
100



AVERAGE CASH BENEFITS*

RETIRED WORKERS

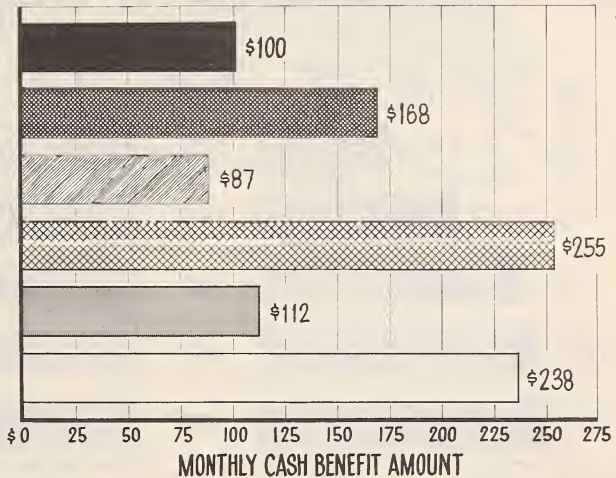
AGED COUPLES

AGED WIDOWS

WIDOWS
WITH 2 CHILDREN

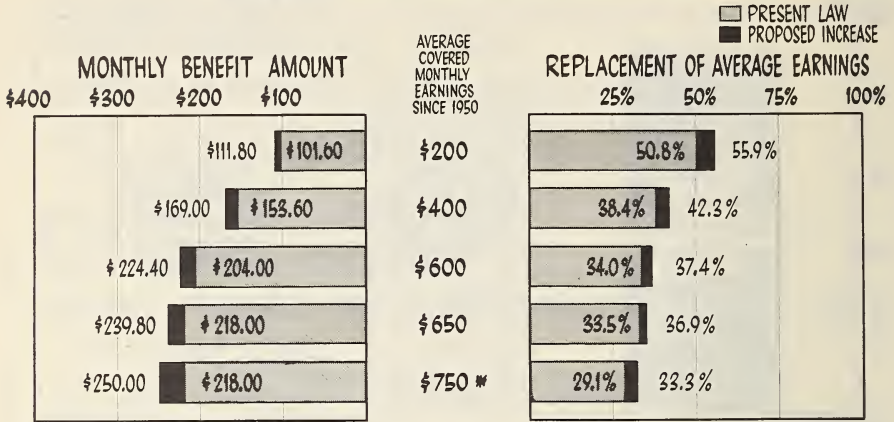
DISABLED WORKERS

DISABLED WORKERS
WITH WIFE & 1 OR
MORE CHILDREN

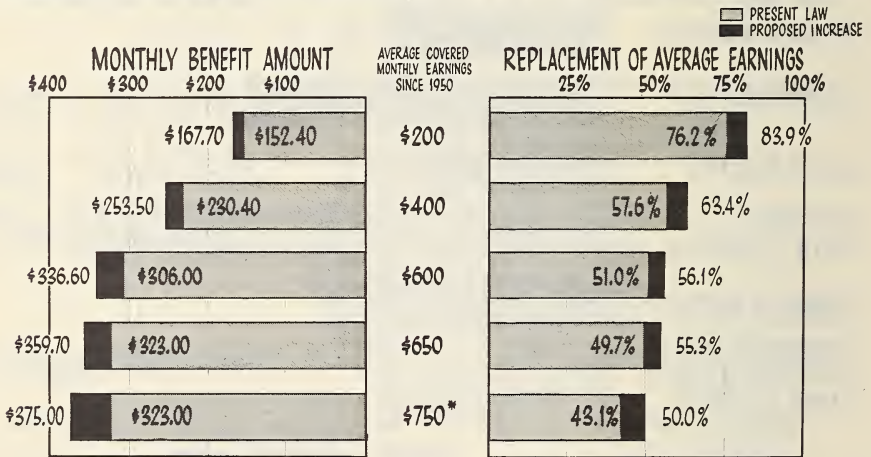


*UNDER PRESENT LAW

BENEFIT AMOUNTS INCREASED 10 PERCENT FOR A WORKER AGE 65



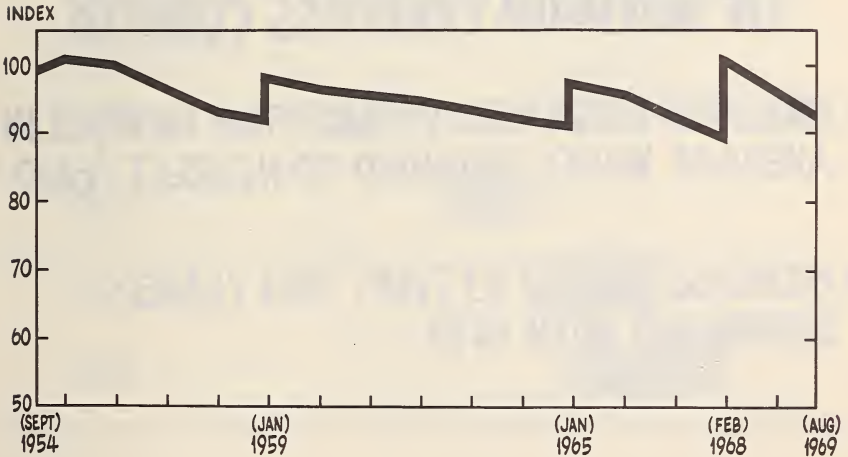
BENEFIT AMOUNTS INCREASED 10% FOR A COUPLE AGE 65



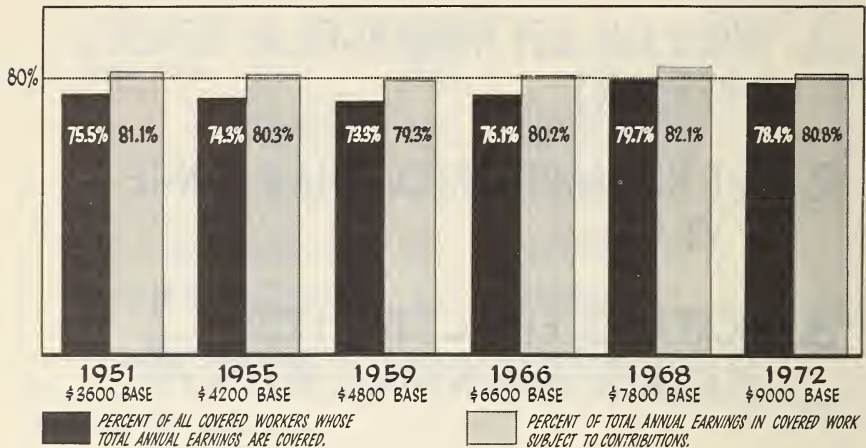
AUTOMATIC ADJUSTMENT OF BENEFITS TO PRICES

- 1. WHEN THE CPI INCREASES AT LEAST
3 PERCENT**
- 2. BUT NO MORE OFTEN THAN ONCE
A YEAR**
- 3. INCREASES EFFECTIVE FOR
JANUARY, BEGINNING WITH 1971**

DECLINE IN REAL VALUE OF BENEFITS SINCE 1954 DUE TO LAG IN BENEFIT INCREASES



\$9000 CONTRIBUTION AND BENEFIT BASE IN 1972 MAINTAINS RELATIONSHIP OF BASE TO EARNINGS LEVELS



AUTOMATIC ADJUSTMENT OF MAXIMUM EARNINGS COUNTED

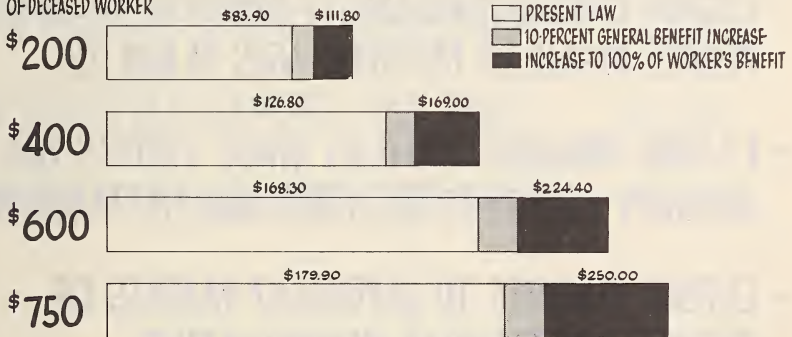
- 1. MAXIMUM INCREASED BY PERCENTAGE INCREASE IN
AVERAGE WAGES, ROUNDED TO NEAREST \$600**
- 2. INCREASE LIMITED TO EVERY TWO YEARS,
BEGINNING WITH 1974**

ELIMINATING WORK DISINCENTIVES IN THE RETIREMENT TEST

	PRESENT	PROPOSED
ANNUAL EXEMPT AMOUNT	\$1680	\$1800
\$1-for-\$2 ADJUSTMENT	\$1680-\$2880	Above \$1800
\$1-for-\$1 ADJUSTMENT	Above \$2880	_____
MONTHLY MEASURE	\$140	\$150

WIDOW'S BENEFIT AT AGE 65 INCREASED TO 100% OF WORKER'S BENEFIT*

AVERAGE MONTHLY EARNINGS
OF DECEASED WORKER



* INCLUDES THE EFFECT OF THE HIGHER BENEFITS PAYABLE ON THE HIGHER EARNINGS THAT ARE CREDITABLE UNDER THE BILL

BENEFIT COMPUTATION UNDER PRESENT LAW

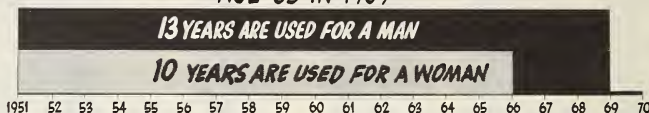
BENEFITS BASED ON AVERAGE MONTHLY EARNINGS FIGURED OVER A NUMBER OF YEARS EQUAL TO 5 LESS THAN THE NUMBER OF YEARS

AFTER
1950 OR
AGE 21

UP TO THE YEAR OF
AGE 65 FOR MEN
AGE 62 FOR WOMEN

EXAMPLE :

AGE 65 IN 1969



BENEFIT ELIGIBILITY ALSO FIGURED

UP TO AGE 65 FOR A MAN

UP TO AGE 62 FOR A WOMAN

OTHER IMPROVEMENTS IN SOCIAL SECURITY PROTECTION

- EXTEND CHILDHOOD DISABILITY BENEFITS TO PEOPLE DISABLED BETWEEN AGES 18 AND 22
- EXTEND NONCONTRIBUTORY WAGE CREDITS FOR MILITARY SERVICE TO THE PERIOD JAN.1957 TO DEC.1967
- EXTEND BENEFITS TO DEPENDENT PARENTS OF RETIRED AND DISABLED BENEFICIARIES

AMENDMENTS AFFECTING HEALTH BENEFIT COSTS

1. Tie depreciation payments to State health planning.
2. Make corporate planning a condition of participation.
3. Expand authority for reimbursement experimentation.
4. Bar providers and physicians who abuse the program.
5. Pay customary charges if less than cost.
6. Withhold payment where UR finds admission not warranted.
7. Authority to estimate overpayments for recoupment.

STATUS OF THE CASH-BENEFITS TRUST FUNDS

	ACTUARIAL BALANCE (PERCENT OF PAYROLL)
AFTER 1967 AMENDMENTS (FEB. 1968)	+0.01%
1969 TRUSTEES' REPORT (JAN. 1969)	+0.53
REVISED COST ESTIMATE (SEPT. 1969)	+ 1.16

STATUS OF THE HOSPITAL INSURANCE TRUST FUND

ACTUARIAL BALANCE
(PERCENT OF PAYROLL)

AFTER 1967 AMENDMENTS (FEB. 1968) +0.03%

1969 TRUSTEES' REPORT (JAN. 1969) -0.29

REVISED COST ESTIMATE (SEPT. 1969)* -0.77

* Preliminary

CONTRIBUTION RATES FOR EMPLOYEES AND EMPLOYERS

YEAR	CASH BENEFITS		HOSPITAL INSURANCE		TOTAL	
	PRESENT LAW	PROPOSAL	PRESENT LAW	PROPOSAL	PRESENT LAW	PROPOSAL
1970	4.2 %	4.2 %	0.60 %	0.6 %	4.80 %	4.8 %
1971-72	4.6	4.2	0.60	0.9	5.20	5.1
1973-74	5.0	4.2	0.65	0.9	5.65	5.1
1975	5.0	4.6	0.65	0.9	5.65	5.5
1976	5.0	4.6	0.70	0.9	5.70	5.5
1977-79	5.0	4.8	0.70	0.9	5.70	5.7
1980-86	5.0	4.9	0.80	0.9	5.80	5.8
1987 ^ε AFTER	5.0	5.0	0.90	0.9	5.90	5.9

ESTIMATED PROGRESS OF THE HOSPITAL INSURANCE TRUST FUND

Under Present Law and under Proposal, 1970-1973 (In Billions)

FISCAL YEAR	INCOME		OUTGO		NET INCREASE IN FUNDS	
	PRESENT LAW	PROPOSAL	PRESENT LAW	PROPOSAL	PRESENT LAW	PROPOSAL
1970	\$5.5	\$5.5	\$5.3	\$5.3	\$0.2	\$0.2
1971	5.9	7.1	6.3	6.3	-0.5	0.7
1972	6.0	8.7	7.4	7.4	-1.5	1.2
1973	6.3	9.6	8.6	8.6	-2.2	1.0

ESTIMATED PROGRESS OF THE CASH-BENEFITS TRUST FUNDS

Under Present Law and under Proposal, 1970-1973 (In Billions)

FISCAL YEAR	INCOME		OUTGO		NET INCREASE IN FUNDS	
	PRESENT LAW	PROPOSAL	PRESENT LAW	PROPOSAL ^{1/}	PRESENT LAW	PROPOSAL
1970	\$35.2	\$35.2	\$28.4	\$29.1	\$6.8	\$6.1
1971	38.6	36.8	29.6	32.9	8.9	3.9
1972	43.1	39.3	30.8	35.4	12.3	3.9
1973	47.4	43.4	32.0	36.5	15.4	6.8

^{1/} ASSUMES NO AUTOMATIC INCREASES IN BENEFITS UNDER THE COST-OF-LIVING PROVISION

FINANCING HOSPITAL INSURANCE BENEFITS

PERCENT OF PAYROLL

	LEVEL COST OF BENEFITS	LEVEL EQUIVALENT OF INCOME	BALANCE
PRESENT PROGRAM*	2.27	1.50	-0.77
PROPOSALS:			
CONTRIBUTION BASE	-0.17		
AUTOMATIC ADJUSTMENT OF BASE	-0.39		
CONTRIBUTION RATES		0.27	
PROPOSED PROGRAM	1.71	1.77	+0.06

* Preliminary

FINANCING SOCIAL SECURITY CASH BENEFITS

PERCENT OF PAYROLL

	LEVEL COST OF BENEFITS	LEVEL EQUIVALENT OF INCOME	BALANCE
PRESENT PROGRAM	8.72	9.88	+1.16
PROPOSALS ¹			
CONTRIBUTION BASE	-0.23		
BENEFIT INCREASE	0.79		
WIDOWS BENEFITS	0.25		
AGE-62 COMPUTATION POINT FOR MEN	0.10		
RETIREMENT TEST LIBERALIZATION	0.08		
OTHER IMPROVEMENTS	0.01		
CONTRIBUTION RATE POSTPONEMENT		-0.25	
PROPOSED PROGRAM	9.72	9.63	-0.09

¹ VARIOUS AUTOMATIC ADJUSTMENT FEATURES AS A WHOLE DO NOT INCREASE THE COST OF THE PROGRAM AS A PERCENT OF PAYROLL.

ADDITIONAL PAYMENTS IN FIRST FULL CALENDAR YEAR AND NUMBER OF PEOPLE AFFECTED

PROVISION	ADDITIONAL PAYMENTS (IN MILLIONS)	BENEFICIARIES IMMEDIATELY AFFECTED (IN THOUSANDS)	NEWLY ELIGIBLE PEOPLE (IN THOUSANDS)
10 % BENEFIT INCREASE	\$2,997	25,500	12 ^{1/}
MODIFICATION OF RETIREMENT TEST	350	800	300 ^{2/}
AGE-62 COMPUTATION POINT	392	5,000	100
INCREASE IN WIDOW'S BENEFITS	610	2,700	--
OTHER IMPROVEMENTS	62	150	38
TOTAL	<u>\$4,411</u>	(3/)	(3/)

^{1/} NONINSURED PEOPLE AGED 72 AND OVER WHO CAN NOT GET BENEFITS UNDER PRESENT LAW.

^{2/} PEOPLE WHO CAN GET NO BENEFITS FOR 1971 UNDER PRESENT LAW BUT WHO WOULD GET SOME BENEFITS UNDER THE PROPOSAL.

^{3/} FIGURES ARE NOT ADDITIVE BECAUSE TIME PERIODS ARE NOT UNIFORM AND BECAUSE A PERSON MAY BE AFFECTED BY MORE THAN ONE PROVISION.

Mr. BALL. Mr. Chairman and members of the committee, I will be talking entirely about the Federal system of social insurance that has become popularly known today as Social Security. This is the wage-related contributory program, entirely separately financed and organized from the other parts of the Social Security Act.

On the first chart, which I will leave up as a standing chart, we have a brief statement of the major proposals that the President has made. You see first of all an across-the-board 10-percent benefit increase to all those on the rolls and all those coming on the rolls in the future, and an increase in the maximum earnings base on which people pay contributions and which count for their benefit computations from the present maximum of \$7,800 to \$9,000 a year.

Then there is a change in the retirement test, which I will go into in some detail later. This eliminates that area where there is at present an actual disincentive for older people to perform more work or to take jobs that pay higher amounts.

And then there is a very important feature, Mr. Chairman. The benefits are not only brought up-to-date with the increase in the cost of living that has taken place since the last time that benefits were improved, but provisions are included, too, that would guarantee that they would be automatically kept up-to-date in the future with increases in prices. Also included are provisions that would keep the earnings base up to date with earnings levels.

This provision is necessary to finance the automatic increases in the benefits, and also another feature of the program that needs automatic adjustment as wages rise—the exempt amount under the retirement test.

And, fifth, there would be an increase in widow's benefits, so that one who becomes a widow at 65 would get 100 percent of her deceased husband's benefits computed as if he had reached 65, rather than 82½ percent as under the present provision. Then there would be a provision for having benefits computed for men, both for insured status and for eligibility, the same way as they are now computed for women—that is, the men's benefits would be computed up to age 62 rather than 65, which is already the way they are done for women workers.

Then there are several additional dependents' benefits provisions. They don't have quite the volume impact that the other recommendations have but they are very important from an equity standpoint. They include additional non-contributory wage credits for military service. Next we have a list of amendments in the health benefits part of the program that have a cost-control effect, and, Mr. Chairman, a proposal that would change the contribution schedule in present law in such a way as to restore the actuarial balance of the hospital-insurance fund. There are also modifications in the contribution schedule in the cash-benefit program to slow down the very large accumulation in those funds that would take place under present law.

So, Mr. Chairman, if I could turn first, then, to the effect of this 10-percent benefit increase. We have here on this chart a pie which gives a breakdown of all the beneficiary groups under social security. These are the people who would get this immediate across-the-board 10-percent benefit increase. There are now over 25 million Americans who get a social security check every month—that is, one out of eight people in the country are getting social security benefits.

I would like to remind you who the people are that make up this group. The various shades of purple on the chart apply to the categories of beneficiaries that are 62 years of age or older, the largest group being retired workers and their wives. But we also have widows and widowers, and the small cut here that represents dependent parents.

And there are about 700,000 people in the group that is getting the special payment that is made to people 72 or over who are not insured under the regular provisions of the Social Security Act. The entire group of older people makes up 19 million, roughly, out of the 25 million in the whole social security group.

I think that fact is better known, perhaps, than the fact that there are 4½ million children and young widows receiving benefits every month under social security. They are represented by the green on this big chart, the children roughly equaling 4 million, and the young widows who are mothers of these children representing about half a million.

Then we have 1,600,000—a little over a million and a half—disabled workers and their wives. The total then is over 25 million people now getting benefits. These would be the people who will be immediately affected by these across-the-board benefit increases.

Then we have, Mr. Chairman, a chart which indicates that these improvements that we will be talking about not only affect the one out of eight Americans now on the rolls, but are permanent improvements in the protection that the program affords for all those covered under the system and the people who will be covered in the future.

There are 92 million workers who will contribute to social security in 1969, and it is those contributors who will have their protection and their future benefits improved by these changes that the President proposes. Obviously, this 92-million-worker figure is higher than the number of workers that there are in the whole labor force at any one time in the course of a year. And just to clear that up for you, this includes, of course, a large number of people who move into and out of the labor force over the course of a year. This is the entire number during a year.

The social security cash-benefit program is really three programs, not just one program. First of all, we have represented by the purple bar over here an indication of the retirement protection today under social security for people who are 65 and over. Actually, if you take the whole group 65 and over, about 90 percent have protection under social security—that is, they are either drawing benefits or would draw benefits if they were to retire. Some are still working, so they are not actually getting benefits yet.

As is indicated here, about 92 out of 100 of the people who are becoming 65 now are insured under social security and will be protected by the the retirement part of the program. As time goes on, this proportion will gradually increase until under present law, without any extension of coverage, we will reach 98 percent of all people in the country being eligible for social security benefits.

Now, a second part of the protection is a disability insurance program. And here today, where the requirements for eligibility are somewhat more strict than they are for the retirement benefits, about 80 out of 100 people who are between 21 and 65 have this protection. You will

remember that one's work under social security has to be within a relatively recent period to qualify for disability benefits, so that this protection is not quite as complete as that for retirement.

On the other hand, in the third part, the survivors insurance part, 95 out of 100 of all the mothers and children in the country have this survivorship protection, meaning in the event of the death of the main breadwinner in the family, 95 out of 100 mothers and children in the country would be immediately eligible for monthly benefits under social security.

Mr. Chairman and members of the committee, just before going to the effect of the President's proposals, I want to remind the committee of where we stand today on the average benefits paid in these different benefit categories that I referred to in that earlier large pie chart.

We have today for retired workers an average benefit payment for all those on the rolls of \$100 a month. This includes everybody receiving a retired worker's benefit, including those who have had to take an actuarial reduction because they retired early. It includes both men with wives and single people.

As I said, among the entire group of retired workers, the average today is \$100 a month. For aged couples it is \$168 a month. Married men have somewhat higher than average benefits, and the couple therefore averages \$168.

You will notice that the average for the aged widow is \$87 a month, which is the lowest of the averages here.

Average benefits for young widows with children of course vary depending on how many children there are in the family. For widows with two children, the average is \$255.

The disabled worker—this is the worker alone—averages \$112. But if you take the disabled worker's family, those who have a wife and one or more children, then the average for the family group is \$238.

Turning now, Mr. Chairman, to the effect of the 10-percent proposal on present benefits, we have on this chart an indication on the left side of how the dollar amounts increase, and then over on this side how the percentage of average earnings would be changed under the proposal. These are amounts for the worker himself at age 65.

I have a later chart that relates to the couple. But for the worker himself, going down this middle column now, these are illustrations at various average monthly earnings.

You remember that the average is computed usually from 1950 up to the time the individual becomes 65 if he is a man, 62 if she is a woman. The chart shows \$200, \$400, \$600. Now, \$650 is the maximum amount counted under the present law. That corresponds to the \$7,800 maximum earnings base. The proposal is to raise that to \$9,000, so the new benefit table will show a \$750 average monthly wage.

You will see that at the theoretical maximum you go from \$218 to \$250 for the worker. That is the result not only of the 10-percent increase but of the higher earnings base; the two together actually can result in about a 15-percent increase. These people pay more, but they are also the ones who will get more.

On the other side of the table we illustrate a major principle of the social security program, as the committee will remember, and that is that although benefits increase in dollars as the average monthly earnings go up and as people have paid more, the lower wage earner

actually gets a higher proportion of his average earnings than does the higher wage earner. From about a 60-percent replacement at \$200 we go down to about a one-third replacement at the figure of \$750.

For the couple, the situation illustrated here, Mr. Chairman, is the same for the couple who retire and take their benefits at 65. You will all remember that for those who retire before 65, there is an actuarial reduction in the amount.

I might point out that more or less the same replacement of earnings has been maintained under the new table at the maximum as was true under the old table. You will remember that the committee in 1967 made a point of having the couple have a replacement of their average earnings, at the top of the benefit scale, of about 50 percent. It actually comes to 49.7 percent. The new table does the same thing here at the \$750 amount. And then, of course, down below that maximum figure the replacement is higher because of the weighted benefit formula.

Now, in addition to bringing the benefits up to date in relation to last February 1968, when the last benefit increase went into effect, the President has proposed—and I might remind the committee that such a proposal was in the platform of both the Democratic and the Republican Parties—that there be a provision written into the law under which the benefits would be increased automatically when the Consumer Price Index increases at least 3 percent. But benefits would not be increased more often than once a year. The way the provision would work is that we would compare the third calendar quarter, July, August, and September of a year, with the July, August, and September of a previous year—compare the two CPI's. And if the CPI had risen at least 3 percent, then a new benefit table would be promulgated. This improvement would be for those on the rolls and also for those coming on in the future. And the benefit increases would be effective for the following January, so that the first increased benefit check, if the price index has gone up as much as 3 percent, could be for January of 1971. And then, depending on what happens to the Index, the benefits could go up each following January.

Now, on this next chart, Mr. Chairman, I have indicated what has happened under the program during the last 15 years in terms of the ad hoc benefit increases that have been made by legislation, and the relation of those to the Price Index.

The monthly benefits were paid first, you remember, in 1940, and for 10 years there were no changes in the benefit levels. There was a very significant price increase, however, during that time, and the value of the benefits deteriorated a great deal. But then in a series of amendments—1950, 1952, and 1954—the real value of social security benefits was significantly increased; a really new level of benefits was established, as compared with the level under the original act, as a result of the 1954 amendments and the immediately preceding ones.

But in the last 15 years, Mr. Chairman, since 1954, when this chart begins, there has been no real improvement and a considerable lag in keeping up. On the time line on the bottom, I have indicated the months in which benefit changes have actually taken place.

The first one, the amendments of 1958, went into effect in January of 1959, so there was a 4-year period here when there was some decline,

as you see, in purchasing power before there was an action to approximately bring the benefit level back to the purchasing power it had before. Actually, it is slightly below, but it is approximately back to the same purchasing power level.

Then there was a long period of decline in the purchasing power of the benefits between January of 1959 and January of 1965, when there was the next general benefit increase. During this period there was quite a decline in purchasing power over a long period of time. Then an adjustment was made to restore the purchasing power of the benefits effective January 1965—again just slightly below complete restoration, but very close.

And then between 1965 and February of 1968 there was a decline, and then in the amendments of 1967, which had an effective date of February 1968, the benefits were increased slightly more than a cost-of-living adjustment—though, of course, that improvement has been lost now; we are down in August 1969 below this index figure, beginning in 1954.

The point that I would like to stress here, Mr. Chairman and members of the committee, is that, although as a generalization it can be said that the Congress in the last 15 years has acted generally to restore the purchasing power of benefits, so that they end up the period with approximately the same purchasing power—nevertheless there have been substantial periods in which people have had to go a long time with benefits reduced in value before action has been taken to restore their value. And I think the most important point about an automatic provision is that it would move in sooner and would keep closer to the actual level of the purchasing power of the benefits, rather than having to take the time for legislative action.

Now, to finance this kind of an automatic provision, it is necessary to have another automatic provision in the law. It takes no increase in the contribution rate to have this automatic provision as long as we keep the maximum earnings base up to date. The same percentage rate of contribution will produce enough money to slightly more than keep up, actually, with the cost of living if you can apply that percentage to the constantly increasing payrolls that would certainly accompany any increase in the cost of living.

So the provision for automatic increases in the maximum earnings base is what makes it possible to say that this provision for automatic increase in benefits tied in with the cost of living is soundly financed.

Before I describe how the automatic increase in the maximum earnings base works, let me indicate to you why it is that we are proposing that the present \$7,800 base first be increased to \$9,000 in the year 1972 and then be kept up to date from then on.

You will see from this chart that the proposal of a \$9,000 base in 1972 just about maintains the situation that the Congress has legislated since the early 1950's. Almost all of the actions have been such as to roughly keep up to date with the situation in the early 1950's, in terms of two tests.

The dark column here is the percent of all covered workers whose total annual earnings are covered by the wage base that is in effect. In other words, in 1951, when you established \$3,600 as the maximum earnings base instead of the \$3,000 that had been in effect from the beginning of the program, the result of that action was that a little

over 75 percent of all the workers under the program had all their earnings covered. And then the light column here indicates that with the \$3,600 base we had a little over 80 percent of total payroll in covered employment taxed. And with very little variations, the changes to \$4,200, \$4,800, \$6,600, and \$7,800 over the years have been right around those same figures. Again in 1972, our estimate would be that a base of \$9,000 would give you a figure of 78 percent of all workers who had all their earning covered—just a little less than the result of the action in 1967 and a little over 80 percent of payrolls were covered—just a little less than under the 1967 action.

Now, once having established the base at \$9,000, the bill provides that there would be an automatic increase in the wage base related to the percentage increase in average covered earnings under the program, going up by \$600 intervals. But we would limit that increase to every 2 years, so that the first one that could happen would be 1974, after you had \$9,000 in the year 1972.

Mr. Chairman, I should like to turn the attention of the committee now to the retirement test, which has been one of the most troublesome and unpopular provisions in the social security law, and indicate to you how I think we would make very substantial improvements in that provision by adapting this proposal. It is a complicated provision, I think it might be worth just a minute to remind you of how it works under present law.

At the present time, as far as the annual test is concerned, a person gets all of his social security benefits as long as his earnings are less than \$1,680 in a year, and then there is a \$1,200 band above that, from \$1,680 to \$2,880, where his benefits for the year are reduced by a dollar for each \$2 that he earns. And then beyond that, above the \$2,880, his benefits are reduced by a dollar for every dollar that he earns.

Then, you will remember, there is an overriding provision that regardless of what his annual earnings are, a person always gets his social security benefit for any month in which he has earnings of less than \$140. He always gets benefits for any month in which he earns wages of less than \$140 and in which he does not perform substantial services in self-employment.

The proposal is to increase the annual exempt amount from \$1,680 to \$1,800. That is simply a recognition of the general increase in wage levels that has taken place. And then it is proposed that that amount be kept up to date automatically in the future as wages go up.

But the really basic structural reform that we are proposing is that the dollar-for-dollar adjustment be dropped and that there be no point where more than a dollar in benefits is taken away for each \$2 that an individual earns, so that the present situation, where an individual who has earnings above \$2,880 will find that he is actually losing by earning more, will no longer exist. Under present law a person loses because he has expenses of working and he has to pay income taxes. He doesn't pay any tax on his social security benefits but he does on his earnings, and he has to pay social security contributions. So he can lose by taking a job somewhat above \$2,880.

The proposal is to carry the 1-for-2 adjustment all the way up, above \$2,880. And then, of course, the change in the monthly exempt amount from \$140 to \$150 is merely a reflection on a monthly basis of the change in the annual exempt amount from \$1,680 to \$1,800.

Mr. Chairman, you may remember from an earlier chart on average benefits that the category which has the lowest average under present law is aged widows. They get an average of \$87 a month, as compared to about \$100 for retired workers.

The basic proposal here is that a widow who comes on the rolls at 65 would get a full amount—the same amount as her husband would get if he had lived to 65 and retired—so that it would be the same amount for her to live on as her husband would have had, instead of the provision of present law for 82½ percent. And then you would keep a somewhat reduced benefit, ranging from 82½ percent to 100 percent, for widows who took their benefits at earlier ages.

This reduced benefit seems to us to be a necessary adjustment, because workers themselves who take their benefits before 65 get reduced benefits and it might seem inequitable for the widow to get 100 percent if she took it at 62. So the proposal is to range up from 82½ percent at 62 to 100 percent for widows who come on the rolls at 65.

This chart indicates the combined effect of the 10-percent increase and the new computation of widows' benefits for those who get the full amount at 65—and we see rather important additions to the amount of the widow's benefit. at the \$200 average monthly wage, the amount would go from roughly \$84, to over \$111. At the maximum that would ultimately be payable as the higher earnings base takes hold, you would go from roughly \$180 to \$250.

The result of these combined changes is to make the average payment for the aged widow about the same as the average payment will be for the retired worker. After you apply the 10 percent to the retired workers, and these two provisions to the widows, you come out roughly the same on the average benefits.

In this next chart, Mr. Chairman, we have an indication of how the average monthly wage is now computed under present law for women, on the one hand, and for men on the other hand. This is necessary for an understanding of the President's proposal that the benefit computation be changed so that the ending point is 62, both for insured status and for benefit computation, for men as well as for women.

The way that the average monthly wage is now figured—that average is, of course, the base on which all the later benefit computations depend—is that in the usual case we start with 1950 (or, of course, an individual's date of attainment of age 21, if later than 1950) and count all the years up to the year in which he becomes 65, if a man, or 62, if a woman. In any case, we drop out the 5 lowest years.

As an example, a man age 65 in 1969 would have 18 years from 1950 up to the year in which he became 65. You would drop out 5 years, and therefore you would have to compute his benefit over 13 years. For a woman who became 65 in 1969 you would count for her the 15 years up to age 62 (in 1966), drop the 5 lowest years and compute the benefits over 10 years. This difference in the computation period can make a rather substantial difference in an individual's benefit amount.

Take particularly the case that I think is most troublesome—the individual who is forced into retirement, at say, 62. If it is a man, he has to count the 3 blank years between 62 and 65 against him in his average, whereas a woman does not. They both have their benefit amounts reduced actuarially if they take them at 62. But he has the additional

disadvantage of those blank years in his average monthly wage computation.

I also mentioned that eligibility as well as the benefit computation is affected by this, since the number of quarters of coverage required for insured status for men would be computed to age 62, as it is now for women, instead of age 65.

I should have mentioned when I was talking about the retirement test that we have included in the bill a clearing up of a very difficult problem in the present law related to the year in which the individual becomes age 72. At the present time, although a person gets his benefits after 72 regardless of his earnings because that is the cutoff age—nevertheless, under present law, earnings that he has in that year after he attains age 72 can operate to keep him from getting benefits for months in that year prior to becoming 72. This is a source of a lot of confusion. The proposal is that earnings after age 72 not count at all for purposes of the retirement test. This would be much simpler for people to understand.

The first of the three changes shown on this chart, Mr. Chairman, is to pay childhood disability benefits to individuals who are disabled between 18 and 22 as well as those who are disabled before 18.

I might remind the committee that the way the law is now is a result of a historical development. It used to be that children's benefits terminated at 18, and then added to the law was the idea that if a person was disabled before 18, you couldn't presume that he was able to take care of himself after 18. So, a provision was added that if a person was disabled before 18, then benefits on his parent's earnings record would be paid at any age, as long as he was the son or daughter of a retired or disabled or deceased worker.

Well, then there was added to the basic program the payment of children's benefits up to age 22, providing the child was in school. But we never changed the provision about having to become disabled before 18, so that now we have a situation in which a child between 18 and 22 may be injured in an automobile accident, permanently disabled, have been dependent on his parents, and yet we cannot pick him up under present law for this childhood disability benefit. This provision would correct that.

There is a retroactive provision on the noncontributory credits for services in the Armed Forces.

In considering the 1967 amendments you decided that it was unfair to members of the Armed Forces to count for benefit purposes only their cash pay, and therefore you provided for the payment out of general revenues for \$100 a month of additional credits, which were roughly related to the value of their perquisites. But the same reasoning would apply to credits for military service for the period between 1957 and 1967—1957 being the date when the Congress extended contributory coverage to the Armed Forces.

Finally, under present law, benefits are paid to dependent parents of deceased workers, but the same protection has not been extended to the dependent parents of workers who retire or become disabled. It would seem that the same logic should apply there as applies in the deceased worker case.

On this next chart, Mr. Chairman, I have a listing of the proposals that we are making, and on which a bill has been promised for today,

which will have an effect on the ability to control costs under the medicare program, the medicaid program, and the child-health program. These are important changes, but no one would for a minute suggest that they will reverse the trend of rising medical prices, which is related to long-range factors of supply and demand and to increasing costs in the operation of hospitals. But I do believe that these changes would improve our ability to hold down the increase.

One of the most important things that we think can be done in the institutional area in the future is to put more emphasis upon planning of facility construction and the enlargement of facilities. In many parts of the country there aren't enough hospitals and there aren't enough extended care facilities. In other places there are empty beds, and in some places there are expansions where there is no community justification. And this creates a plant which imposes future costs on the whole community, and, of course, on these governmental programs.

The proposal is: to grant, under the medicare program, and as far as hospitals are concerned, under the medicaid program as well, the Secretary authority so that he would not have to pay depreciation and interest nor the return on equity that is provided in current law when that depreciation, that interest, and that equity were related to capital expansion that had taken place contrary to the planning requirements and had been actually disapproved by the planning body in the State. At the present time, since depreciation and these other items are costs we are required to go ahead and pay them.

It is also suggested that we make the development of a corporate plan for each one of these institutions a condition of participation in medicare—a plan developed by its management and medical staff that would set forth for the planning bodies and for the public what services they intended to supply, and also certain cost data so that their record could be compared with other institutions' records—a matter of public exposure. This would require them to plan as a corporation, and to have a real planning mechanism for their own institution as well as to relate to a community plan.

We feel that if this type of planning is done and if the public knows about it, it will both have a restraining effect on unnecessary expansion and promote efficient operation.

No. 3. Mr. Chairman, we have in operation several quite promising experiments under the authority that you have put into the law already on experimentation with methods of reimbursement to promote efficiency and economy. But we found in setting these up that it would be quite helpful, and I think we would get more good experiments going, if we had authority that would allow us to include in the experiment, for example, some services that are not now covered under the law.

I have in mind particularly preventive services—perhaps flu injections, for example, might be involved in such an experiment—to see if you couldn't actually cut the cost of what is in the law now by including some other things, and also authority to set up on an area-wide basis an experiment, if most of the institutions were interested in one, even if there were a few who didn't want to participate. At the present time, in order to have an experiment, everybody in a representative group has to agree to come in voluntarily, and part of the prob-

lem is, since they are guaranteed their cost, many are not particularly anxious to experiment with something that might turn out to give them less than they are now receiving.

On the fourth item, Mr. Chairman, the thought is that with due regard for hearing and appeals processes, we ought to have the authority under the law to bar from future participation—in effect, for reimbursement under medicare—a physician, for example, or other provider who had quite constantly performed badly under the program, through overcharging or unnecessary utilization of services—a clear case of definitely abusing the program.

The only authority we have at the present time, as long as the individual keeps his license to practice medicine, is just a very careful review of his claims. We may have many, many times found an individual is creating a real problem by abusing the program and still we have to reimburse him for his services.

On the fifth one, at the present time in institutional care under medicare, the entire method of reimbursement is related to cost, and there are some situations, for example, when a hospital is heavily endowed, when they actually may make public charges that are below their costs. And we feel that it would be preferable to reimbursing them at cost, when it is more than they are charging the rest of the public, to always have their public charge as a limit on what the program would pay them.

On the sixth one, Mr. Chairman, as you know, under present law the utilization review committees in the hospitals and extended-care facilities have authority to make a decision on long-stay cases that medicare will not reimburse beyond a few days of the time when they have made a decision that the individual should no longer be in a hospital. We would now like to ask for authority for the program to implement utilization review findings related to initial admissions and services furnished, not merely to long-stay cases as now. If the utilization review committee finds that the individual should never have been in the hospital, or if it finds that drugs and biologicals have been over-prescribed and tests have been over-prescribed, or, for in-patient hospital services, if the utilization review committee—this is a professional committee, not a governmental one—finds that in this case there has been an excessive use, for example, of physician services under the supplementary part, the committee's findings would be brought to our attention at once and we would not pay for those services.

Then, finally, at the present time in some situations where we need to recoup overpayments for medicare, you may have in effect a person to whom you have made the overpayment, or an institution to whom you made the overpayment, not particularly anxious to furnish the information for you to go through all the detail and make a finding on how much overpayment there has been in each case, and the authority asked for here is to make an estimate of the amount of the overpayment in the absence of records being furnished or in situations where it is clearly very difficult and time-consuming to take the matter case-by-case.

These items are not in the pending bill, but in a separate bill that will be coming up today, Mr. Chairman.

Secretary FINCH. Mr. Chairman, subject to your pleasure, I didn't realize this presentation would run as long as it has. And since this is the subject of another bill coming up, I leave it to you whether you want this presentation completed or whether you want to——

The CHAIRMAN. I think he has completed that part of his statement. Haven't you completed that part, Mr. Ball?

Secretary FINCH. We have some more material, and I just wanted to know which way your preference went as to whether you wanted to pursue the social security or family-assistance aspect of the proposals.

The CHAIRMAN. We would go into the financing part later. That is your point, isn't it?

Secretary FINCH. Yes, sir.

The CHAIRMAN. Is that what he has left?

Mr. BALL. Yes, sir. What I have left, Mr. Chairman, is a few charts that are related to how we propose to finance these improvements in the present social security program.

The CHAIRMAN. Let's delay that, then, in all fairness and respect for the Secretary, so he can respond to some questions before he has to leave. We will pick up with you, Mr. Ball, when we get back this afternoon.

Mr. Secretary, we appreciate your being here and the statement that you made.

Mr. Ullman.

Mr. ULLMAN. Mr. Chairman, because of the time problem. I am not going to engage in extensive questioning at this time but with the understanding that I will be able to return to questions when the Secretary gets back——

The CHAIRMAN. Oh, yes.

Mr. ULLMAN (continuing). I would like to just make a brief statement to which the Secretary may or may not want to respond. I want to join in welcoming you here. I am not going to make a comment on the social security aspects of this recommendation, because I think, generally speaking, there is very much in the way of good construction recommendations that the committee may well want to add to, including, I might say, an immediate 15-percent increase in benefits.

With respect to the welfare recommendations, Mr. Secretary, as one who sat through longer hearings 2 years ago on this welfare problem, in which the committee desperately tried to find some answers to this critical problem of mushrooming welfare, and also as a member of the Advisory Commission on Intergovernmental Relations, which has been tackling this problem and attempting to find some answers, I want to tell you that as an individual I am shocked, frankly, almost to the point of being speechless, by the recommendations that you have made.

When I first read about them in the paper, I thought, certainly by the time you got to the committee we would have this spelled out and clarified to the point where it would make some real sense. Had you just recommended federalizing the categories of welfare—AFDC, and aged, and blind, and disabled—I would not probably have been shocked. Even adding general welfare in your federalization, I probably would not have been shocked. Or if you had taken the other approach and gone all the way toward a negative income tax, elimi-

nating all of the machinery that is involved in the welfare program, that probably, in my judgment, could have been rationalized and possibly defended.

But what you are doing as far as I can see—and this is why you are going to have to be back here for a long time, to educate me and, I am sure, some the the members of the committee on what you are really trying to do—what it looks like to me is that you are recommending that we not only federalize the basic welfare provisions, including general welfare, but continuing all the present State administrative programs and add some new ones on a liberalized basis. It looks to me like you are opening up the Treasury of the United States in a way it has never been opened up.

You are opening it up first to individuals in a system whereby the individual applicant fills out the form, submits it to the social security system, and gets on the Federal payroll, so to speak, gets a welfare check. And this includes adding more than 10 million new people, I understand, to the Federal payment welfare family allowance system that you have recommended. But you not only have opened it up to the individual in a highly questionable way, but you are also opening up the Treasury to the States in a new sharing program that includes a 90-percent cost for State-instituted child-care centers and all the other administrative machinery you are recommending.

When we looked at this matter 2 years ago in the committee, we found that child care was one of the most expensive programs we could get into. But here is an open-ended recommendation that the States come in and the Federal Government pay 90 percent, the States only 10.

We found out when we got into the medicaid program that if you start on an open-ended program, it is going to lead way beyond where you ever anticipated. This is the whole problem.

The reason the social security program recommendations are sound is that they are closed recommendations. They are within the bounds of a trust-fund system. But the whole problem of welfare has been that it is open-ended. You have widely expanded them far beyond anything that we had ever conceived.

It just seems to me that you not only have not tackled the problem of mushrooming costs—and this has been largely in the aid-for-dependent-children program—you have nothing here to stop any of that mushrooming cost in the aid-for-dependent-children program, but you have accelerated it.

There are going to be innumerable questions that I am going to want to ask, and I am sure the other members of the committee are going to want to ask, as to what the ramifications of this open-ended program are going to be.

For instance, we are in this committee taking up the problem of unemployment compensation. These problems are related. If we go into a recession will you have more and more families with unemployed fathers who would be taken care of under your recommendation? Why have unemployment compensation? We will take care of it with welfare.

There are so many questions that remain unanswered, in my judgment, it is at this point pure political pie in the sky. When you return,

I am going to try to explore just exactly what you are talking about, how it is going to work, where it is going to lead, because in my judgment in this open ended approach to this problem, by opening up the Treasury both to individuals and to the States, we are going down an unknown road that may be very, very dangerous to our whole national being.

If you wish to respond, Mr. Secretary, I would be glad to hear you.

Secretary FINCH. I think, Congressman, your laundry list was so valid and so lengthy that I would only respond generally by saying that you have given me my homework for my return. But, obviously, there are 54 open-ended programs in effect now in the present AFDC program. There are 54 different kinds of subsystems that aren't operating very efficiently. And this bill is an effort to rationalize these systems. And the open-ended nature of the proposal is going to be present in any effort that is made to deal with social problems.

This has enormous social implications, and I would concede that. But we do close the system to the extent that we are stopping the old 50-percent dollar which the States could draw to. And as far as the mushrooming effect is concerned, that is what we are trying to control by having this structure, because the figures just show, as I have indicated in my testimony, that we are going to continue these quantum leaps, as people have a greater awareness of the present system and what you do to play the game.

We are trying to provide a structural reform which will break people out of this cycle of dependency. That is my broad response to a few of the critical philosophic points that you have made. The others I will have to come back to.

Mr. ULLMAN. Mr. Secretary, I am not going to ask you any questions because of the fact that you have to leave and I know that there are other committee members that will have something to say, but I see in this proposal no control whatsoever. When you come back I will want to ask you in what specific ways you can control this thing. To me, it is so completely open ended that it can only lead to disaster. This was our problem 2 years ago in the welfare program, to try and close it in so that we could keep it under control.

My concept of welfare is that it should be built on individual rehabilitation and I see here no rehabilitation. I see here an incentive to eliminate rehabilitation and put people on the shelf in the kind of philosophy that we are wealthy enough, we can afford to pay people to exist. I want to bring every one within the mainstream of constructive activity in this Nation and that takes intensive, concentrated, specific programs. In the kind of a hodge-podge which is neither negative income tax nor welfare, nor rehabilitation that you have recommended, I see nothing that will bring these people back as constructive participants in American society, which should be our goal.

Secretary FINCH. I think Miss Switzer will remove any doubt in your mind that we have any inclination toward warehousing people. I think the effect of this legislation will be quite to the contrary.

Mr. ULLMAN. I look forward to seeing you when you come back, Mr. Secretary.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Secretary, did you tell me you had to leave—

Secretary FINCH. At 12.

The CHAIRMAN (continuing). At 12?

Secretary FINCH. Just slightly before, to catch the 12:30 plane.

Mr. BYRNES. I would yield, Mr. Chairman, to anyone who is worried about an opportunity to question the Secretary. I don't have that worry.

The CHAIRMAN. All right.

Mr. Burke?

Mr. BURKE. Mr. Secretary, in your statement I see no reference made to child welfare. According to the figures here, there is an authorization of \$110 million under our present laws and the administration has requested appropriations of only \$57 million—which represents about an 8-percent Federal contribution toward the upkeep of these young children who are most disadvantaged people. They are the children who are thrown upon the State without a mother or a father, and the Federal Government contributes only 8 percent of the cost of the care they receive.

Now, why doesn't the administration come in and recommend a higher amount of the Federal contribution towards the upkeep of these children who have no one to speak for them? I know they have no political strength. They are alone. They are farmed out to homes. The States and local governments have to carry the full burden of up to 92 percent.

We have heard a lot of talk about Federal and State sharing, but it seems to me that they should, at least, bring up the contribution on the Federal Government's part at least equal to what it is in AFDC cases. Why does the Government ignore these most disadvantaged children? Why don't they come in here with something for them instead of allowing the scandalous conditions that exist throughout this Nation today in child welfare cases to continue?

For some of these children, I understand, the States only pay \$4 a week towards their upkeep in foster homes. It is a terrible scandal in this country. I was hoping that you would come in here today with some recommendations relative to this matter.

So I would just like to ask you if you intend, before you come back here, to try to put together some recommendations that will increase the Federal Government's contribution toward child welfare cases.

Secretary FINCH. Yes.

Mr. BURKE. For your information, there are 650,000 of these children, approximately, in the country today, who are being completely neglected.

Secretary FINCH. Well, as I indicated in my testimony, we are coming in with these additional proposals and I think after you have looked at them you will see that we are not ignoring these children. We anticipate no diminution of the present level of Federal contribution.

Miss Switzer can speak to the specifics of the foster care program, which has not had an opportunity to be tested for very long. It is a relatively new piece of legislation and we have just inherited it from the OEO.

Mr. BURKE. I hope that you will come in here and at least bring the amount of the appropriation up to the authorized amount of \$110 million. That doesn't seem to be much. That would result in the Federal Government contributing only about 16 percent toward the care of these children.

Another question I would like to ask is why does the administration expect the old people to go through all the cold months of this winter and wait until April to get their increase in social security that is so vitally needed right now?

Secretary FINCH. Part of the answer to that lies in the very determined effort that the administration is making to cool off the economy. Another part is the problem of the time lag that would be involved in evaluating this program as against the consideration by the committee and the Congress of other programs. And under the President's proposal for the cost of living increase we don't have to wait until election year to provide social security increases.

Mr. BURKE. Well, with all the reports that we have had on the problems of the aging suffering from malnutrition and the rising cost of rents, food, clothing, the escalating costs, and everything else, I can't see why we can't grant an increase of at least 15 percent by the December 1 check this year; in other words, a check that arrives December 1. I don't see why and I would like to ask Mr. Ball, possibly, to answer the question. May be he can answer it.

Secretary FINCH. I think Mr. Ball can speak to that better than I can.

Mr. BALL. Mr. Burke, administratively we really just couldn't get the changes out that fast. You may remember that in the past we have usually had a considerable leadtime to make the benefit changes. Usually the law itself has said for the second month following the month of enactment, but it has been possible to meet such a deadline only because the legislation has been in process a long time, so that we could do a lot of advance planning. But there hasn't been that kind of consideration of the bill—it is just starting on this bill, and our best judgment today is that if this bill were to be enacted, say, even in November, probably the earliest we could actually get the checks out would be for March, in early April.

Mr. BURKE. You mean to tell me that the computer system that you have in paying checks cannot be adjusted by 10 or 15 percent?

Mr. BALL. It is a very large programing job, Mr. Burke.

Mr. BURKE. It takes 4 months to set those computers?

Mr. BALL. Well, it takes the programers that long. You have to change just about every program that now operates. It is not just a simple increase. In the future, if we have an automatic provision, it will be programed for that, and we will be in a situation where we are expecting a new decision every fall and then you can put it into effect in a relatively short time. But we would be starting now quite from scratch. Doing everything we could, I don't see how we can make the actual payment any sooner than that.

Mr. BURKE. I doubt very much in this modern age with all the technological improvements we have had to our computer system that it takes 4 months to put an increase into effect. I doubt if it takes over 30 days, and if it takes them more than 30 days I think you had better get some new people in there handling those computers.

Mr. BUSH. Will the gentleman yield?

Mr. BURKE. Well, I would like to get the answer from them and then I will be glad to yield.

Mr. BALL. The answer is that my best judgment is that it takes exactly as long as I said, Mr. Burke, to accomplish it starting from

where we are now. In the future, if we are planning on an automatic increase, the operation will be set up so it can be done in much less time, but here we would be starting from scratch.

Secretary FINCH. I would say in all fairness, Congressman, if there is one department in which we have a particular responsibility—obviously, we have it in all areas, but in Mr. Ball's shop we are tight. We are very close, in my opinion, to the breaking point, in terms of number of jobs, and we are having to spend a great deal of time on overtime just to meet the existing demands. If we can get the response that we have asked for in terms of the number of people, it would help this problem that you are addressing yourself to.

Mr. BURKE. I would just like to make this observation. This is about the most spurious excuse I have ever heard. To think that the elderly people of this country have to go through the months of December, January, February, and March and wait until you get your computers in order to grant this increase, sounds ridiculous to me. I doubt very much that it would take 4 months or even 2 months. I believe that they could get them in order within 30 days.

Mr. BALL. Mr. Burke, if it would be helpful to you, I would be glad to arrange for the people directly in charge of our computer operation to discuss this with you.

The only thing I can tell you today is that it is their best judgment, as they have given it to me, that this would take that long, starting from where we are.

Mr. BURKE. More than likely if they were instructed to take 6 months they could explain how it takes 6 months to put this increase in, but I doubt if you or anyone else could prove to me that this increase couldn't be in the mails by December 1st and you will have a difficult time proving it to the public today.

Years ago, you could get away with this type of answer, but not today. The people are informed and they know how long it takes to set the computers to make a 10-percent increase or a 15-percent increase in the checks that go out through the machines. I doubt very much that it would take longer than 30 days and I think that you have come here with a very weak excuse to the aged concerning the increase that they are entitled to and need. You have already got a surplus amount in this fund and that surplus amount should be paid out to the recipients of social security.

Mr. BALL. Mr. Burke, may I say I have known you a long time, but I resent the implication that I am telling you something that I don't believe. I have done my best to get the correct information about how soon we could possibly do this, and the answer is as I have given it to you.

Mr. BURKE. Mr. Ball, with due respect to you, and I respect you, I say to you that this does not sound reasonable to me that it takes 4 months to put these checks in the mail.

Mr. BALL. Then my offer to you—

Mr. BURKE. If that is true, then I think you need a complete reorganization with respect to the sending out of these checks. I doubt very much if the IBM people couldn't come in and get those checks out there in 30 days.

Mr. BALL. I would be very glad to have the people discuss this with you.

MR. BURKE. I know what your position is here and I know what restrictions are upon you, like every other agency head in this Government.

MR. BALL. There are no restrictions on me whatsoever on this point.

MR. BURKE. I had a similar example concerning the Defense Department just during the past few weeks. There were two firms in my State bidding on a contract and the Navy Department awarded the contract to the firm that was 42 percent high. This same firm that was 42 percent low came in with a bid on another contract and they were denied the contract because they were 10 percent higher than the other firm.

Now, we are getting all kinds of answers on all these problems and it seems to me that the Social Security department should have been ready because this subject matter has been discussed, as you pointed out, since the last convention by the Republicans and the Democrats and everybody knew that there was going to be a request for an increase. Certainly, it seems to me to be a ridiculous answer to say that it is going to take 4 months to adjust these machines before these checks can be in the mail.

It doesn't seem plausible to me.

MR. BUSH. Mr. Burke, would you yield?

MR. BURKE. I will be happy to yield.

MR. BUSH. Inasmuch as the Secretary has to leave, I wouldn't want the silence on this side to in any way indicate acquiescence to what your point has been. We sat here for 6 months, or 7, I believe, Mr. Chairman, when we had social security hearings, I believe it was 2 years ago, and nobody here leveled the charge that anyone was stalling. The work was intricate. The detail required the study. I think the administration has come up with a very meaningful new innovative program.

I believe that we should be openminded enough to listen to what the Secretary has to say, not to impugn his motive for having to leave. He will be back here.

MR. BURKE. I am impugning the administration on the spurious—

MR. BUSH. That is exactly why I asked you to yield.

MR. BURKE (continuing). Excuse that they have given here today, and you will never convince the people of this country that it takes 4 months to put these checks in the mail.

MR. BUSH. But did you impugn the previous administration when it took 7 months of hearings? All I ask is that the men be given fair play. You have the same man, Mr. Ball, who we sat with for 6 to 7 months. He was fair. He was open. I don't know whether he is a Democrat or Republican, but he knows how those computers work and I accept his word for it.

MR. BURKE. I like Mr. Ball, but I realize there are restrictions on Mr. Ball, as there are on many other people that come to our committee and other committees.

MR. BALL. There are no restrictions.

Secretary FINCH. I resent the implication that I would put any restrictions on Mr. Ball.

Mrs. GRIFFITHS. Mr. Chairman, may I ask a bipartisan question?

The CHAIRMAN. We will always yield to the gentlewoman from Michigan.

Mrs. GRIFFITHS. Thank you very much, Mr. Chairman.

Mr. Secretary, I would like to ask you how your program will work in this particular case. About a year or two ago a boy about 15 or 16 years of age in this town killed one of the most popular principals in town. Some enterprising newspaper reporter discovered afterward that the child had been abandoned by his mother when he was about 8 to a family in town who had kept him for about 4 years and then had sent him out on the street. From the age of 12 until he killed the principal he had made his living shooting crap and stealing. How will your program take care of that child?

Secretary FINCH. You mean in the District of Columbia, in this town?

Mrs. GRIFFITHS. In this city. But how would you take care of it any place.

Secretary FINCH. I would have to say that this program will not respond to that situation directly. We have to rely basically upon the State and county and city structures—which we strengthen, and we augment. But that situation, basically, is not met by the family assistance program except indirectly, in that we would hope that it would hold families together and provide any family unit, which can be a single parent and a child, with enough income to keep them together. This is a very long-term affair. We won't know whether, within the decade, this program has had the desired social effects. But the specific case you raise would have to be one that the local people, who have the primary jurisdiction in this area, would be fundamentally responsible for.

Mrs. GRIFFITHS. Then I can assume that your program will not reach either a 12-year-old girl living with her mother and four illegitimate brothers and sisters in a one-room apartment where the mother moves out with the boy friend and leaves the 12-year-old in charge of the four brothers and sisters? Your program won't reach the girl, either?

Secretary FINCH. No; I didn't say that it wouldn't. There would be a dollar impact. If you are talking about the other environmental considerations, I would have to refer that to Mr. Veneman, but you can't legislate that kind of environment. That is my basic response.

Mr. VENEMAN. I believe, Mrs. Griffiths, that the program, per se, would not take care of this situation, which has occurred in the past. But perhaps the program will provide the incentive for that family to stay together so that in the future such a situation would not exist. To get to the specific situation, there are sections in the Social Security Act, under the social services provisions, which provide for protective services programs which are matched by Federal and local moneys. I sponsored legislation in California which put that sort of program into effect in California and I think this kind of a program would direct itself to the circumstances that you pointed out.

Mrs. GRIFFITHS. What does your program do for the 14-year-old girl with an illegitimate child? Is she required to finish school?

Mr. VENEMAN. It would depend on the amount of social services that would be available. I think Miss Switzer could answer this.

We are talking about an attitude here. Of course as far as income maintenance is concerned, these would be taken care of under the AFDC program or under foster care, but when you have a social environment that lends itself to this type of a circumstance where you

have these children being left alone by their parents, then I think you have to lean pretty heavily on social services.

Mrs. GRIFFITHS. Let me point out to you that far from Mr. Ullman's viewpoint, my viewpoint is that all you have added to this program is money and I believe that money is never going to do it. You are going to have to do something far different if you are ever going to cure the problem of welfare. I just think you are not looking at it from the right standpoint. You are not reaching the cases that have to be reached. If you are ever to break this terrible pattern of life you are going to have to do something far more than add money.

Secretary FINCH. We hope when we have finished our full presentation that we will have persuaded you that we are trying to do far more than just apply dollars to the cases you are citing.

Mrs. GRIFFITHS. I am going to have a lot of questions to ask, and I think the place where you are applying the money, it seems to me, is not in the cities that need the remedy.

Mr. BURKE. Mr. Chairman?

Secretary FINCH. Mr. Chairman, I will have to leave.

The CHAIRMAN. Mr. Burke had yielded to Mrs. Griffiths, but the Secretary has to leave.

Do you have to leave?

Mr. BURKE. I just wish to make this observation which contradicts the testimony that we have had here this morning about taking 4 months.

The 1967 amendments legislation was signed on January 2, 1968. The conference was held on December 15, 1967, and up until December 15, 1967, no one knew what the amount of the benefit increase was going to be. The bill was signed into law on January 2, 1968, and the increase became effective for February of 1968.

The first checks were received on March 1. This shows that it doesn't take any 4 months' period.

Mr. BALL. It doesn't show any such thing, Mr. Burke. As I indicated before, we had all during those amendments plenty of knowledge that there was going to be a flat-percentage benefit increase across the board. That is what the programing takes time on. Whether it is 7 percent, 10 percent, or 12 percent can be plugged in at the last minute.

Mr. BURKE. I wish you would start to work on a 15-percent increase forthwith, because that is what you are going to get.

Mr. BALL. The amount, Mr. Burke, doesn't matter, and we have started to work on the idea that there will be an across-the-board increase, and they are doing it as fast as they can.

Mr. BURKE. This information I brought out today indicates it didn't take any 4 months.

Mr. BALL. We were working on that last increase 4 months before the effective date.

Mr. BURKE. Yes, and you should be working on this other one right now.

Mr. BALL. We are.

Mr. BURKE. You should have those checks set up for 15 percent payable December 1.

Now I yield.

Secretary FINCH. Mr. Chairman, I do hate to leave the arena.

The CHAIRMAN. Before you leave, Mr. Secretary, let me recognize Mr. Corman to make a statement.

Mr. CORMAN. Thank you, Mr. Chairman.

I only want to join my colleague, Mr. Utt, in welcoming my fellow Californian here. Having some little pride of authorship in the Carter Commission report, I was pleased to see in this proposal many of the underlying philosophies of welfare that the commission recommended.

Secretary FINCH. We did use that material heavily, Congressman.

Mr. VANIK. Mr. Chairman, I have just one question that I want to ask. It is a rather important one. It relates to money.

On page 34 of your statement you say :

Under present law the cash benefit trust funds would increase from an estimated \$38.7 billion at the end of the present fiscal year to about \$75 billion at the end of fiscal 1973.

You further say that :

Under the President' proposal the trust funds would reach only \$52.6 billion at the end of fiscal year 1973.

Now, in the time that you have remaining, how can you justify diverting \$22½ billion out of the social security fund presently going there under the law?

Secretary FINCH. That goes to the presentation that Mr. Ball has not yet completed, and I am afraid he would have to answer that.

Mr. VANIK. In other words, this is correct? You propose to reduce the increment to the fund by \$22½ billion?

Mr. BALL. Mr. Vanik—

Mr. VANIK. Is that true or not?

Mr. BALL. That last is a correct statement but the idea of diverting funds is not correct. The only thing that this proposal does—

Mr. VANIK. A bill to collect it.

Mr. BALL (continuing). Is what has been the policy of this committee and the Congress over a long period of time, and that is, in the cash benefit program, to postpone the effective date of a rate increase when it becomes clear that an increase in the contribution rate is going to result in collecting a great deal more in the way of an annual excess of income over outgo than is necessary to support the program.

Mr. VANIK. But the fact is that you are reducing the income of the fund by almost the present total amount in the fund.

Mr. BALL. Reducing it over a short period of time, that is correct. The ultimate rate is the same, and later on the rates are just as they are now.

The CHAIRMAN. Mr. Secretary, you are excused.

Secretary FINCH. Thank you, Mr. Chairman. I do hate to leave the arena, and I look forward eagerly to my return.

The CHAIRMAN. Mr. Under Secretary, we understand you were in charge of the task force within the administration that developed most of the recommendations at least with respect to the welfare program and perhaps even the social security amendments, is that correct?

Mr. VENEMAN. Mr. Chairman, I don't want to overrate my position.

The CHAIRMAN. I am not minimizing your boss' position, but it is somewhat like it is in the congressional office. Sometimes the boss tells somebody to do something. In that respect, I thought you had headed it.

Mr. VENEMAN. I will accept the ball. However, I think the development of this program was the product of a great deal of staff work.

The CHAIRMAN. I understand that.

But you were in charge. That is what I am getting at. So I feel that most of the questions that I have in my own mind you can answer.

But we have yielded to this side. Mr. Byrnes, do you want to question?

Mr. BYRNES. No, go ahead.

The CHAIRMAN. Do you want to say anything at this point, Mr. Betts?

Mr. BETTS. I wanted the record to show that I compliment the Secretary on his appearance here this morning. As usual, I think Mr. Ball has made a very understandable explanation of the charts and I could add that in the years I have been on this committee I have had the opportunity to observe you and your staff at work over at the administration in Baltimore. In my opinion you and your staff are a conscientious, honest, and hard-working public servants. I just wanted the record to show that. I had just a couple of questions that I think maybe Mr. Ball could answer. I don't think it is a part of the record but I think it should be in the record.

Going back to the chart which shows a decline in real value of benefits since 1954, would I gather from that chart the increase in cost of living since February 1968 when we increased the benefits has been 10 percent or under?

Mr. BALL. Not quite, Mr. Betts. At the present time, if you measure from August back to February—August is the last date we have—it is 8.2 percent. The proposal is for a 10-percent increase.

Mr. BETTS. So a 10-percent increase in benefits takes care of the increase in the cost of living since the last increase in benefits?

Mr. BALL. Yes, and some further increase.

Mr. BETTS. Probably 2 percent?

Mr. BALL. Yes.

Mr. BETTS. One other question. On this social security proposal No. 4 when you talk about future automatic adjustments of the earnings base, does that include adjustment of the \$1,800 and the \$2,880, both?

Mr. BALL. No, the \$2,880 amount under the retirement test is out under the President's proposal. There is just one exempt amount—\$1,800—and then that would be kept up to date with increasing earnings.

Mr. BETTS. That is right.

Mr. BALL. And you remember that the monthly measure, which is now \$140, becomes \$150. That would be kept up to date, too. But there are no other figures from now on under the proposal; the 1-for-2 provision applies to all earnings above \$1,800.

Mr. BETTS. I understand.

Some mention has been made about a 15-percent increase in benefits. What would be necessary to provide for that increase in the way of an earnings base?

Mr. BALL. That would be another 0.43 percent of payroll beyond the proposals that are made here.

Mr. BETTS. On the \$9,000 base?

Mr. BALL. Yes. Bob Myers is here.

Is that right, Bob, on the \$9,000 base?

He is saying, yes.

Mr. BETTS. And what was the figure aagin?

Mr. BALL. Forty-three one-hundredths of 1 percent.

Mr. VENEMAN. Mr. Chairman, I don't think Mr. Ball got to that particular point in his presentation.

The CHAIRMAN. No. I overlooked that. I was going to suggest when Mr. Betts completed his questions we get back to Mr. Ball. That was in the charts.

Mr. BETTS. I am sorry.

The CHAIRMAN. Are you through?

Mr. BETTS. I have just one other question.

I understand in your family planning, your adjustment plan, there is some sort of a work incentive, is that correct?

Mr. VENEMAN. Yes, there is.

Mr. BETTS. I would just like to have it explained briefly for the record. I don't quite understand it.

Mr. VENEMAN. Actually, the basic elements of the program, Mr. Betts, provide that those persons who are in low-income employment and who are earning less than the welfare base would be entitled to a Federal supplemental payment and would be entitled to retain one-half their earnings over the \$1,600 base. Therefore, in the example that the Secretary gave in his testimony showing a family of four, they would be entitled to earn up to \$3,920 before they would be completely out of the family assistance system.

Mr. BETTS. So that the incentive is to retain some of the adjustment payments?

Mr. VENEMAN. Their earnings would be supplemented by a basic Federal contribution.

Mr. BETTS. I see.

That is all, Mr. Chairman.

The CHAIRMAN. Mr. Ball, if you will go back to your charts we would like to have you finish your presentation, if you will.

Mr. BALL. Mr. Chairman, the remaining charts in the social security presentation deal with various financial aspects of the present program and how the President's proposals would be financed. I am starting here with the status of the cash benefits trust funds today, with an indication of how we got where we are from the last time that the committee looked at the program.

You remember that at the end of the 1967 amendments, as shown in the actuarial report on those amendments, the cash benefit program was just about in balance. For all practical purposes it was just about at the point of actuarial balance. But the 1969 trustees' report last January, as compared with roughly a year before, showed that the long-range balance—we are talking here of estimates made over a 75-year period—was a little over half of 1 percent of payroll at that time. That came about principally from three changes in the long-range assumptions: a somewhat higher interest rate as a result of the way interest rates had been behaving; greater labor force participation on the part of women workers, and the use of 1968 wage levels instead of the

1966 wage levels that had been used in the evaluation at the time of the last amendments.

You will remember, Mr. Chairman, that the cost estimates for the cash benefits program are made on a so-called level wage assumption, and that because of the weighted benefit in the formula, when wages rise and you use a new and higher level-wage assumption there is a saving to the program in terms of percentage of payroll—that is, the liabilities that are built up by those higher wages are not as great as the savings that you get from the higher contributions.

The CHAIRMAN. Pardon me for interrupting you, Mr. Ball. So it will be completely understood, what you are saying is your February 1968 estimates were predicted upon levels of earnings and wages for the calendar year 1967?

Mr. BALL. Mr. Chairman, 1966.

The CHAIRMAN. 1966?

Mr. BALL. Yes.

The CHAIRMAN. All right. Your January 1969 level was based upon your 1968 earnings?

Mr. BALL. Yes.

The CHAIRMAN. Your estimate in September 1969 must be based upon your expectations of what the level of wages and earnings will be for the calendar year 1969, is that right?

Mr. BALL. That is correct.

There are other elements in this increase here, as I mentioned. Higher interest rates and greater labor force participation are the main factors. There are other pluses and minuses, but those are the main factors. Using a level-wage approach, as you know, Mr. Chairman, and then, as wages rise, changing the level-wage assumptions, means that we almost always are in the position of finding some long-range surplus under a new evaluation, which is another way of saying that the system, with the present contribution rates, is financed so that the benefits can somewhat more than keep up with the rising cost of living. That is why, under the proposal to have an automatic increase, as long as the payrolls rise and you have a higher earnings base you can finance the program without a change in the contribution rate.

In a sense, what I am saying is that the present way of evaluating the program takes into account benefit increases on an *ad hoc* basis. It is assumed that the Congress will, from time to time, increase the benefits, at least to keep up with the cost of living, and that is why the estimates are made on this level-wage basis, to allow for that.

The CHAIRMAN. Just in further explanation of that chart, you are continuing to use a 75-year period for estimating actuarial balance.

Mr. BALL. That is correct, sir.

The CHAIRMAN. All right.

Mr. BALL. Of course, Mr. Chairman, Mr. Myers is in the room now and will be available to the committee for any detailed questioning on all of these actuarial matters. I have tried to give you an overall summary at this point.

The CHAIRMAN. I hope he will be back this afternoon. I have some questions I want to ask of him.

Mr. BALL. He will be here.

The CHAIRMAN. Go ahead.

Mr. BALL. Now, on the next chart we have the status of the hospital insurance fund, where the situation has been just the opposite. The estimate is made here over a 25-year period. Incidentally, Mr. Chairman, the estimates for hospital insurance were made on a rising wage basis, as being in this program a more conservative method that allows for a margin of safety in this program as compared with level wages in the other one. As the chart shows, at the end of the last consideration by the committee the program was in approximate balance, but the trustees' report of 1969 showed a minus balance of 0.29 percent of payroll.

Now, that minus balance, as compared with the previous approximately even balance, came about principally from a change in the assumptions concerning hospital utilization. Hospital utilization had always been carried in previous evaluations on the basis of survey data that we had developed before Medicare was actually in operation and modified by the experience of other types of programs, but we never had had, until the trustees' report of January of 1969, actual experience under Medicare on an accrual basis. When the actuaries looked at the actual experience there, the utilization was significantly higher than they had previously assumed—not necessarily higher than had been taking place right along, but higher than they had previously assumed—and we got a minus balance of 0.29 as a result of that factor.

Now, on a preliminary and tentative basis, the actuaries have estimated as of last month a balance in the hospital insurance trust fund—I am talking about the long-range estimates now—of minus 0.77 percent of payroll. These are not the final estimates but they are expected to be quite close to what the final estimates will be.

Now, this difference between 0.29 percent and 0.77 percent came about principally as a result of two changes in the assumptions. You will remember, Mr. Chairman, that the rate of increase in per diem hospital costs had been assumed in earlier estimates to decline rather rapidly after it reached a certain point. The increase, instead of being 15 percent, was expected to be 12 percent next year and then it was expected to decline more. Well, experience just hasn't been going in that direction. The new cost estimates, the preliminary estimates, still have a declining rate of increase, but they are assumed to decline at a considerably slower rate than was assumed in the previous estimates.

The other major factor is that the utilization rates that were previously talked about were assumed to remain stable through the next 10-year period, whereas the new assumptions are that in addition to per diem costs going up—I mean that the deceleration is not so rapid—the assumption is that there will actually be an average of about one percent a year increase in utilization over the next 10 years. Those two factors combined result in a balance for hospital insurance of minus 0.77 percent, as compared with plus 1.16 percent for cash benefits.

The CHAIRMAN. Mr. Ball, let me interrupt you one more time before you leave the chart on the status of cash benefit trust funds. You have combined there the OASI and the DI funds, have you not?

Mr. BALL. Yes, that is correct.

The CHAIRMAN. For purposes of the record, is there or is there not a deficit on the basis of September 1969 estimates in the DI fund?

Mr. BALL. I believe it is in approximate balance. I will ask Bob for the exact figure.

The CHAIRMAN. Mr. Robert Myers, who is Actuary for the Social Security Administration.

Mr. BALL. While he is —

The CHAIRMAN. You go ahead.

Mr. BALL (continuing). Checking that, Mr. Chairman, I might say that practically the whole of this surplus is old-age and survivors insurance; disability is in approximate balance. You will get the exact figure.

The CHAIRMAN. I thought the disability fund had a deficit of—about, oh—what is it—0.04 or something of that sort?

Mr. BALL. It might be in that neighborhood, yes.

The CHAIRMAN. Actually, the OASI fund would be in surplus by more than the 1.16.

Mr. BALL. Yes, I believe that is correct. We will get the exact figure in just a minute.

The CHAIRMAN. You go ahead.

Mr. BALL. Mr. Chairman, on this chart, which is a little hard to follow from the big chart—perhaps the small chart would be better—I have here on the left-hand side, of course, the years in which the present contribution rate schedule would be changed. There are changes scheduled over the period from 1970 up to 1987. Then we show the rates for the cash benefits under present law, as compared with the proposal, and then for the hospital insurance under present law as compared with the proposal, and then we have combined the contribution rates.

Now, let me say, first, that the proposal on the cash benefit side is to retain the present rate of 4.2 percent through 1974, rather than have it increase in 1971 to 4.6 percent as present law requires. The reason for that is simply that the schedule in present law is already producing very large surpluses of income over outgo, and even with substantial benefit increases it would continue to do so.

I will show that on a subsequent chart.

On the other hand, the hospital insurance trust fund in the short run will be very quickly depleted. Actually, by 1973 we would be in trouble on hospital insurance. So the proposal is not to change the ultimate contribution rate, but we propose that the rate that would have gone into effect in 1987 go into effect instead in 1971, and then continue level from then on. That will put that fund on an actuarially sound basis when combined with the changes in the maximum earnings base that are proposed, whereas the cash benefit funds will continue on an actuarially sound basis even with the stretched out schedule included in the proposals the President has made.

Putting the two together, you can say that the rates proposed by the President as compared with present law—the combined rates for both hospital and cash benefits—will be somewhat lower from now through 1976 than present law, and from then on the combined rates would be the same, and, of course, the ultimate rates in both programs are kept the same.

I will explain the situation that led us to these proposals in the next chart. Meantime I think Bob has the answer to that earlier question.

Mr. MYERS. Mr. Chairman?

The CHAIRMAN. Mr. Myers.

Mr. MYERS. As you will recall, the actuarial balance of the disability portion of the program at the time of the 1969 trustee's report was minus 0.03 percent of taxable payroll. The result of the new cost estimate is to bring that down to minus 0.01 percent. There was not nearly as much improvement in the actuarial status of the disability part of the program as in the old-age and survivors part because we brought into the cost estimates for the disability benefits some more recent experience which showed a very slight increase in the rate of disability, but the program still is in reasonably good financial shape, and there were not any of the difficulties in these new cost estimates with which you are familiar and which had occurred in some previous years.

The CHAIRMAN. All right. Thank you, sir.

Mr. BALL. Mr. Chairman, this chart, which is called "Estimated Progress of the Hospital Insurance Trust Fund," perhaps should have preceded the one on the contribution rates that we just talked about, because this chart shows why we are recommending that the nine-tenths of the percent ultimate rate for hospital insurance be put into effect right away.

Under present law, if you will look at the net increase in the fund, which is the result, of course, of the income-outgo relationship, we have, beginning in 1971, a drop in the fund itself. By 1973 this decrease has reached the proportions of \$2.2 billion under present projections, and the fund before the end of that year is practically depleted. It was necessary to increase that contribution rate to prevent this situation from developing.

The CHAIRMAN. Before you leave that, may I interrupt you again, before you leave the other chart?

Your outgo remains the same in both columns?

Mr. BALL. Yes.

In the cash program, Mr. Chairman, we have a situation where the rate in present law, again just looking at the net increase, is already producing in the present year almost a \$7 billion surplus of income over outgo. If you would leave in effect the rates under present law—present law, you know, goes to 5 percent, the ultimate rate, in 1973—you would be collecting in that 1 year over \$15 billion more in income than outgo. It has been the general advice of advisory councils in the past, and the decisions of this committee and Congress, not to allow such large excesses of income over outgo to develop, but rather, in such situations, to postpone the effective date of the next tax increase. Even under the proposal that the President is making, with the improved benefits and the postponement of the currently scheduled rates in the cash benefit program, you still have quite significant increases in income over outgo, being almost \$4 billion in 1971 and almost \$4 billion in 1972. Then by 1973 you get, as a result of the earnings base increase, \$6.8 billion. So it is our feeling that the funds are kept in very good shape under these proposals even though there is a postponement of the contribution rate.

To summarize the situation on the financing of the hospital program, on the long-range basis, we are starting here under present law with a level cost of benefits estimated, in these preliminary estimates,

at 2.27 percent of payroll, but an income over the 25-year period equivalent to only $1\frac{1}{2}$ percent of payroll. That gives you the minus balance of 0.77 percent we were speaking of before.

How do we make up for that in the proposal? Well, really in three ways. The contribution base increase to \$9,000 helps to the extent of seventeen one-hundredths of 1 percent. Then the automatic adjustment in the future, keeping the base up to date automatically, improves the situation by 0.39 of 1 percent. And then bringing the ultimate rate up to 1971, instead of waiting until 1987, gives you 0.27 of 1 percent additional over the 25-year period—with the consequence that under the proposed changes you would have a level cost of 1.71 and a level equivalent of income of 1.77, so that you would put the hospital insurance fund into a very sound position, with actually a little plus over the 25 years.

The CHAIRMAN. Mr. Ball, before you take that chart down, and that completes your charts except for one——

Mr. BALL. I was going to make the same summary for the cash program.

The CHAIRMAN. Yes; but before you take that chart down, when we enacted the tax schedule in the act of 1967 were we told that the surpluses in the years reflected there would be in those amounts or in lesser amounts?

Mr. BALL. We are speaking of this chart?

The CHAIRMAN. That is right.

Mr. BALL. Bob, can you help on that?

Mr. MYERS. The excesses of income over outgo, Mr. Chairman, were estimated to be higher than as shown there.

The CHAIRMAN. That is what I thought.

Mr. MYERS. Because those estimates indicated that the system as it would be affected by the 1967 amendments was in close actuarial balance.

The CHAIRMAN. Do you remember the reasoning of the committee in executive session in adopting that tax schedule in 1967?

Mr. MYERS. Mr. Chairman, as I recall, the contribution schedule for hospital insurance might have been made a bit higher here, but I think the action was taken in the Senate based on some later data.

The CHAIRMAN. No, no. It is my recollection that when it passed through the committee we provided a tax schedule deliberately to enlarge the surplus.

Mr. BALL. You are speaking of the cash program, aren't you, Mr. Chairman?

This is cash.

The CHAIRMAN. That is what I am talking about, cash. OASI and DI funds. We deliberately did it and it is my recollection that we were told that the excesses in these years reflected on the chart would be greater than is reflected on that chart for those years, and you said that is correct.

Mr. MYERS. Mr. Chairman, I am sorry. I was talking about the hospital insurance program.

The CHAIRMAN. No; I am talking about the cash benefit fund. We did it, as I recall, after consultation with you, Mr. Myers, and following your recommendation.

Mr. MYERS. Mr. Chairman, I am not certain whether the excesses that we are now estimating had previously been——

The CHAIRMAN. Oh, that is right, you said they were larger but you meant the hospital excesses.

Mr. MYERS. Yes, sir.

The CHAIRMAN. All right, on these, now, let me back up.

When we enacted these changes in 1967, what were we told the excess would be for 1970, 1971, 1972, and 1973, do you remember? Were they more or less than these figures?

Mr. MYERS. Mr. Chairman, I would have to look at the figures on that. I am really not certain which way it moved.

The CHAIRMAN. During the time that we are in recess, between now and 2, I wish you would get that information for us and have it when we get back at 2 o'clock.

Mr. MYERS. Yes, sir; I can do that very easily.

The CHAIRMAN. We were deliberately, though, Mr. Myers, and Mr. Ball—both of you were in the room—endeavoring to enlarge the reserves within the fund during that period of time, in the OASDI payment fund, because of the increased outflow and the fact that at the time we enacted the 1967 amendments, as I remember, we had a reserve of about 12 months for the future and we thought that reserve was for too short a period of time, and I want to talk to you this afternoon some, Mr. Myers and Mr. Ball, about what the reserves would be and for what number of months under the proposal compared to the provisions of present law.

Mr. BALL. Mr. Chairman, my recollection, like yours, is that there was a deliberate decision to increase that reserve somewhat.

The CHAIRMAN. That is right.

Mr. BALL. But I don't believe that it was truly anticipated that the very large excesses of income and outgo would be allowed to stand in these future years, but rather that that early rate was put in for long-range purposes to balance the program.

The CHAIRMAN. You are probably right. I just want to be certain why we did that, because it is evident that we have accumulated quite a percent in excess when measured either by that chart or by the other chart showing the excess as a percent of payroll.

Mr. BALL. As the Secretary said in his testimony, even by 1973, just as short a time as that, these reserves would be way up to \$75 billion under present law.

The CHAIRMAN. Yes, but by 1973 we are talking about an outgo of \$36½ billion from the fund.

Mr. BALL. Yes.

The CHAIRMAN. And I wondered if we would have any \$36½ billion in the fund in 1973. These points I want to know, whether we are actually cutting back under the very limited 12-month period of reserves to something less than the 12. I want to know all about these matters when we get back.

Before we adjourn, Mr. Secretary, I inadvertently said that we would come back with the Secretary on the 22d. I had already ascertained from the Secretary that he would be in the city on the 20th. If you will find out if that is his present plan, we could come back on the 20th with him. He could be here then the 20th and 21st and we could continue to hear our public witnesses beginning on the 22d as we had earlier planned.

Mr. VENEMAN. Our only problem there, Mr. Chairman, is that he will have to appear before Senator Magnuson's committee on our appropriations on the 20th. I will check it out at noon.

The CHAIRMAN. Check it out. Even if he is to be here on the 21st, I would like to know when we adjourn tomorrow the day when the committee would convene with him present. We would like to have him back at the earliest possible date next week.

Mr. VENEMAN. Fine, Mr. Chairman.

The CHAIRMAN. Without objection, then, we will recess until 2 o'clock and we will let you explain the one last chart you had at that time.

We have to go to the House floor.

Mr. BALL. Thank you, Mr. Chairman.

(Whereupon, at 12:42 p.m., the committee recessed, to reconvene at 2 p.m., the same day.)

AFTER RECESS

(The committee reconvened at 2 p.m., the Honorable Wilbur D. Mills, chairman of the committee, presiding.)

The CHAIRMAN. The committee will please be in order.

Mr. Ball, before we resume your charts, Mr. Schneebeli had one question he said he wanted to ask.

Mr. SCHNEEBELI. Thank you, Mr. Chairman.

Probably in anticipation of what you are going to develop for us, I wanted to say, Bob, that I thought to date you have given us a very fine, understandable presentation. And I want to compliment you on the very fine manner in which you have given us these figures and this data, which is usually quite dry. I think you have done an excellent job, and congratulations.

STATEMENTS OF HON. JOHN G. VENEMAN, UNDER SECRETARY OF HEALTH, EDUCATION, AND WELFARE; ACCOMPANIED BY HON. ROBERT M. BALL, COMMISSIONER OF SOCIAL SECURITY; HON. MARY E. SWITZER, ADMINISTRATOR, SOCIAL AND REHABILITATION SERVICE; HON. ARTHUR E. HESS, DEPUTY COMMISSIONER OF SOCIAL SECURITY; HON. ROBERT E. PATRICELLI, DEPUTY ASSISTANT SECRETARY; HON. HOWARD A. COHEN, DEPUTY ASSISTANT SECRETARY; HON. ROBERT J. MYERS, CHIEF ACTUARY, SOCIAL SECURITY ADMINISTRATION; HON. JULE M. SUGARMAN, ACTING DIRECTOR, OFFICE OF CHILD DEVELOPMENT; HON. JOSEPH MEYERS, DEPUTY ADMINISTRATOR, SOCIAL AND REHABILITATION SERVICE; AND HON. CHARLES E. HAWKINS, SPECIAL ASSISTANT TO THE ADMINISTRATOR, SOCIAL AND REHABILITATION SERVICE

HON. JEROME M. ROSOW, ASSISTANT SECRETARY OF LABOR FOR POLICY DEVELOPMENT AND RESEARCH, DEPARTMENT OF LABOR

Mr. BALL. Thank you very much, Mr. Schneebeli.

Mr. SCHNEEBELI. That is all, Mr. Chairman.

The CHAIRMAN. Go right ahead, Mr. Ball.

Mr. BALL. Mr. Chairman, we have here a chart that summarizes the situation of the cash benefit long-range financing. We discussed earlier a similar chart on hospital insurance.

You remember, we indicated on the hospital insurance chart that after all the changes we come out, instead of a minus balance of 0.77 percent, with a little plus balance. So we have restored the actuarial balance of the hospital insurance program.

Now, over on the cash side we are starting out with the present program having a level cost of 8.72 percent and a level equivalent of income of 9.88 percent of payroll. So we have a long-range actuarial balance of 1.16 percent.

Now, over in this left column we have indicated those benefit improvements that have a long-range cost, and also how the contribution base increase to \$9,000 results in a saving, so that the contribution base going to \$9,000 reduces the level cost of the whole program by 0.23 percent of payroll. These other improvements increase the cost, of course. The benefit increase would cost 0.79 percent of payroll, the widow's benefit a quarter of a percent of payroll, improvement in the computations for men one-tenth of a percent, the retirement test liberalization eight one-hundredths, and then a group of minor improvements 0.01 percent. So we have a proposed program that costs 1 percent of payroll more than the present program.

Thus instead of 8.72 percent of payroll, the proposed program that would cost 9.72 percent. Moreover, the level equivalent of income is reduced by a quarter of a percent of payroll because of the stretchout in the schedule. Instead of the ultimate rate going into effect in 1973, it goes in more gradually, coming to the ultimate rate in 1987. And that loses long-range income to the program equivalent to about a quarter of a percent of payroll.

So then we have under the proposed program a level cost of benefits of 9.72 percent of payroll and a level equivalent of income of 9.63 percent. So on the cash side we come out with a slight imbalance in the long-range estimates.

But you will remember, Mr. Chairman, that the committee and the Congress have always felt that on these long-range, 75-year estimates in the cash benefit program a balance within one-tenth of a percent of payroll was an approximate actuarial balance. And so this falls within the range that has been established now by custom and tradition.

I have just one final summary chart, Mr. Chairman, that puts down the most important improvements that we have talked about. They are listed on the left side. Then it shows how much in additional benefits would be paid out because of the specific improvement in the first full calendar year, and then the number of people who are affected by these changes. In the second column are shown the beneficiaries now on the rolls who would be affected, and then in the final column are shown the number of people who are not eligible for benefits today and who would be eligible for benefits under the bill.

The 10-percent benefit increase amounts to approximately \$3 billion in additional benefits for the first full calendar year in which it is in effect; the modification of the retirement test to \$350 million. Under the retirement test change about 800,000 people who are now getting benefits would get more benefits, and about 300,000 people who today

get no benefits would get partial benefits. On the 10-percent benefit increase, the number affected for the March effective date would be about 25½ million people. The reason why there are 12,000 newly eligible is that the change in the level of benefits in the so-called Prouty amendment—that is, the special age 72 benefit—would make a few more people eligible. The age 62 computation point for men would add about \$392 million in payments in the first year; 5 million of the beneficiaries now on the rolls would get additional benefits in the recomputation resulting from that provision. The widow's benefit change would add \$610 million, and 2.7 million widows now on the rolls would get higher benefits because of that change.

The other improvements I have mentioned add up to \$62 million and effect 190,000 beneficiaries.

All of the additional benefits together, in the first full calendar year of operation, would be a little short of \$4½ billion—\$4.4 billion. You can't add these beneficiaries, of course, because we have in the first line the total number on the rolls, and some of these people are affected additionally by these other provisions. And in the third column, in the same way, you can't add all of these newly eligible people together.

Mr. Chairman, the final point that I would like to make is that although in the presentation we have tended to emphasize the improvement for those on the rolls, these are long-range fundamental improvements in social security that increase the protection for all the current contributors, and those who will be contributors in the future—the entire 92 million people who in the course of this year will make a contribution to social security.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Ball.

If I might, Mr. Secretary, ask Mr. Myers to come up here, I want to talk to him and also Mr. Ball.

Mr. VENEMAN. Certainly.

The CHAIRMAN. First of all, Mr. Myers, let's go to this estimated progress of the cash benefits trust funds, the chart that Mr. Ball alluded to, if you have it there. These pages are not numbered, but it is toward the back of the list.

You have the estimated progress of cash-benefits trust funds under present law and the proposal. You remember the question I asked you this morning, Mr. Myers, about what the estimate might have been, at the time we enacted the tax rates, for the net increase in these years that are shown on the chart here? Do you have a recollection of what you told us we might be taking in, say, in 1970 in excess of outgo?

Mr. MYERS. Yes, Mr. Chairman. During the lunch hour I worked up a little table here that you might want to distribute and then I can talk about it.

(The table referred to follows:)

COMPARISON OF ESTIMATES OF INCOME AND OUTGO FOR PRESENT LAW, OASDI SYSTEM
[In billions of dollars]

	Income		Outgo		Net increase in funds	
	1967 estimate	Current estimate	1967 estimate	Current estimate	1967 estimate	Current estimate
Fiscal year:						
1970.....	32.8	35.2	28.5	28.4	4.3	6.8
1971.....	35.8	38.6	29.6	29.6	6.2	8.9
1972.....	38.8	43.7	30.8	30.8	8.0	12.3

The CHAIRMAN. All right.

Mr. MYERS. Mr. Chairman, in this table I have set down the income and outgo and the net increase in funds for fiscal year 1970 to fiscal year 1972 for present law as it was estimated in 1967 at the time the 1967 amendments were adopted and as it is currently estimated as shown in the chart that Commissioner Ball presented to you.

The CHAIRMAN. Those are the last two columns.

Mr. MYERS. So the last two columns show the net result of the net increase in funds.

The CHAIRMAN. That is what I am asking about, yes.

Mr. MYERS. According to the current estimate, as you will note, the net increase in funds is some 50-percent higher than had been estimated previously, the reason being primarily that wages have gone up so much more rapidly than was estimated back at that time.

The CHAIRMAN. That is understandable, but we did know at the time that as a result of the enactment of these tax rates and their timing that in 1970 we would be taking in \$4.3 billion more than we spent in 1970, \$6.2 billion more in 1971, and in 1972 \$8 billion more.

Mr. MYERS. That is correct, Mr. Chairman.

The CHAIRMAN. Those were the figures we had in mind at that time.

Mr. MYERS. Yes, sir.

The CHAIRMAN. Why were we doing that? Why were we getting those much larger amounts into the fund? Do you remember that?

Mr. MYERS. Mr. Chairman, I think in part it was a desire to keep the fund more or less in line with about 1 year's benefit payments, because in the preceding 10 years or so this had not been the case. The fund had been allowed to remain relatively low in terms of dollars.

The CHAIRMAN. That is exactly my recollection of it, that we were concerned that if we didn't do what we did in 1967, we might find ourselves sometime down the road with not even 12 months of surplus in the fund. That was the point, was it not?

Mr. MYERS. Yes, I think so, Mr. Chairman. In fact, I think that during the early 1960's and perhaps mid-1960's the fund was actually lower than 1 year's benefit payment.

The CHAIRMAN. It was. That is what we were trying to correct.

Now, let me ask you about this. Under present law I see in this chart the amount of income in 1971, 1972, and 1973, and under the proposal the amount of income. And in those 3 years there is a decrease. Finally, in 1973 we are taking in \$4 billion less than we take in under present law. When we get to the year 1973 what, in your opinion, would be

the amount at the end of that year in the cash-benefit trust funds, not the hospital, just the cash-benefit trust funds?

Mr. MYERS. Mr. Chairman, under the proposal at the end of fiscal 1973 the trust fund for the two cash-benefit programs is estimated at \$52.6 billion.

The CHAIRMAN. 52.6?

Mr. MYERS. Yes, sir.

The CHAIRMAN. What would it be if we left present law alone?

Mr. MYERS. It would be about \$75 billion.

The CHAIRMAN. \$75 billion. Well, we would certainly then under the proposed rates by the end of the year 1973 have more than a 12-month reserve against a much larger outgo.

Mr. MYERS. Yes, sir. In fact, it would be about 18 months, or, in other words, 1½ years' benefit payments.

The CHAIRMAN. That is right.

Mr. MYERS. Under present law, if present law were left to continue unchanged, it would be about 2½ years' benefit payments.

The CHAIRMAN. And what is it at the moment? What do you estimate it will be at the end of this year?

Mr. MYERS. At the end of the current fiscal year, the fund will be about \$39 billion.

The CHAIRMAN. That is fiscal year——

Mr. MYERS. The current fiscal year.

The CHAIRMAN. Against an outgo under present law of around \$28-29 billion?

Mr. MYERS. That is correct, \$28 billion.

The CHAIRMAN. \$28 billion.

Mr. VANIK. Mr. Chairman, what these figures tell us, then, is that you are reducing Social Security taxes by \$22¼ billion, 11-and-a-fraction to the employer and 11-and-a-fraction to the employee?

Mr. MYERS. No, Mr. Vanik, it is not entirely that. It is a combination of two things. The taxes would be reduced, but also there would be higher benefits paid.

Mr. VANIK. Well, but the fact of the matter is, as far as the fund is concerned, you are reducing the input of the fund by \$22¼ billion, one-half of which is the employer and the other half is employee contributions.

Mr. MYERS. We are reducing the——

Mr. VANIK. Input into the fund.

Mr. MYERS. The net input into the fund.

The CHAIRMAN. The net. These figures he gave, \$75 billion against 52.6, indicate the amount of net left after the payment of all benefits at the end of 1973.

Mr. VANIK. I was wondering, Mr. Chairman——

The CHAIRMAN. So really you are reducing more. I assume it would be even a greater reduction than the amount he is talking about.

Pardon me, Mr. Vanik.

You would take in a whole lot more than that \$23 billion or \$22½ billion under existing tax rates compared to the proposed tax rates. This is the net effect?

Mr. MYERS. Yes, sir.

The CHAIRMAN. It would be much more than you would actually take in, so the figure is even more than you were stating it to be in total.

That is the point I was trying to bring out. Then that answers my question, Mr. Myers, about that. We would still be on the road to continuing the reserve related to an annual outflow? We would still be improving that?

Mr. MYERS. Yes, you would still be above that standard. That is correct, Mr. Chairman.

The CHAIRMAN. You told me the amount, but what did you estimate at the end of the fiscal year, in terms of months, for our reserve related to our outgo?

Mr. MYERS. At the end of fiscal year 1973, there would be about 18 months' fund on hand.

The CHAIRMAN. At the end of 1970 fiscal year?

Mr. MYERS. Under present law there is a fund of about \$39 billion as against benefit outgo of \$27 billion, so that is roughly 15 months.

The CHAIRMAN. Is it as many as 15 months?

Anyway, we would be extending it from whatever that is, 14 or 15 months, up to 18 months under the proposal?

Mr. MYERS. Yes, Mr. Chairman.

Mr. BYRNES. Would you yield at this point?

The CHAIRMAN. Oh, yes.

Mr. BYRNES. While we are on this subject, there is nothing unusual about the readjustment proposed here—

The CHAIRMAN. No.

Mr. BYRNES (continuing). In the tax rates or wage base consistent with changing economic circumstances in order to maintain trust fund reserves at the appropriate levels. Isn't that correct?

Mr. MYERS. Yes, that is correct, Mr. Byrnes.

The CHAIRMAN. I would agree with that completely, Mr. Byrnes. We have done that in some manner. We have either moved the rates forward or moved them back when we have had a bill.

Mr. BYRNES. I am emphasizing this because at least one member of the committee is indicating that this is a revolutionary change that would rob the trust fund.

My point is—and I want to confirm it—that through the years we have readjusted and postponed in many cases the application of rate increases simply because changing economic conditions would have produced more current revenue than we thought was appropriate. Isn't that correct, Mr. Myers?

Mr. MYERS. Yes, Mr. Byrnes, that is quite correct. Quite a number of times the ultimate rate that was scheduled in the law was pushed back a number of years into the future.

Mr. BYRNES. When I first came on the committee, we resisted pressures at that time from some quarters to postpone taxes, even though we really needed them to go into the trust fund, simply because there were those who were arguing that you shouldn't have a balance of any significance, that it should be on a pay-as-you-go basis.

But I can remember that some of us—the chairman was one and I was another—insisted that that wasn't going to be the philosophy we were going to follow, that we were going to have appropriate surpluses

to take care of contingencies and to provide some additional income through the interest that would be accumulated by the fund.

But I just thought since an issue has been raised on this, that we better clarify that this is the normal process. Let me ask you as the actuary—is this a prudent procedure that we follow?

Mr. MYERS. Yes, Mr. Byrnes, I certainly think that it is a prudent course to follow. I believe that, as you have stated, and as you and the chairman view it, there certainly should be some funds on hand. You don't need to accumulate an excessively large fund the way an insurance company would have to do in similar circumstances, but there certainly should be at least a year's fund in my opinion.

Mr. BYRNES. Prudence does not require going too far beyond that? Is that what you are saying?

Mr. MYERS. You can go somewhat beyond that, but certainly to develop a fund of 10 or 15 years' benefit payments would seem quite excessive.

Mr. BYRNES. Thank you.

The CHAIRMAN. Mr. Myers, what would these figures on the surplus in the cash-benefit trust funds be if we were now, as we were in the beginning, looking at the matter of actuarial soundness in perpetuity rather than the 75-year period?

Mr. MYERS. If this were examined over a longer period than 75 years, the actuarial balance would be somewhat more negative. Probably it would be in the order of a one-fourth of a percent or three-tenths of a percent rather than the 0.09 percent shown.

The CHAIRMAN. 0.09?

Mr. MYERS. Under the proposal, this is.

The CHAIRMAN. Yes, but I am talking about on the basis of the existing situation.

Mr. MYERS. Oh, I am sorry. I did not understand that.

The CHAIRMAN. Where you have 1.16 surplus. I thought we generally said the difference between actuarial soundness for the 75 years and in perpetuity was somewhere between a quarter and a half of 1 percent of payroll.

Mr. MYERS. Yes, Mr. Chairman, it would be somewhat more than a quarter of a percent.

The CHAIRMAN. Less than a half.

Mr. MYERS. But it wouldn't be as much as a half percent less. In other words, instead of 1.16, it would probably be somewhere around 0.8 or 0.9 percent of payroll.

The CHAIRMAN. What would this 1.16 percent of payroll be if in the place of going on the basis of 75 years we looked at this on the basis of 25 years, as we do the hospital trust fund?

Mr. MYERS. I haven't made these calculations, so I couldn't say for certain. But I would imagine it would be somewhere around 1.3 or 1.4 percent, although I must say, Mr. Chairman, I would not think it sound actuarial procedure to use as short a period as 25 years for a pension system such as this.

The CHAIRMAN. Mr. Myers, you are leading me now.

Mr. MYERS. I am sorry, Mr. Chairman.

The CHAIRMAN. I wasn't talking about the actuarial soundness. I just wanted to know. I thought it would almost double it if you reduced your calculations to a 25-year period compared to a 75-year period.

Mr. MYERS. I don't believe so, Mr. Chairman. I would like to check on it and see.

The CHAIRMAN. Check it and see just what the effect would be, because there are those who now say that 25 years is about as far down the road as we can look and that you ought to make your estimates on that basis.

You don't agree with them?

Mr. MYERS. I most certainly do not, Mr. Chairman.

(The following information was received by the committee:)

LEVEL-COST OF OASDI SYSTEM UNDER A 25-YEAR VALUATION BASIS

Until 1964, the level-cost of the OASDI system was computed over perpetuity. Since then it has been computed on a 75-year basis, according to the recommendation made by the 1965 Advisory Council on Social Security Financing. The 1964 estimates were prepared on both bases, and at that time it was found that shortening the computation period would change the actuarial balance of the OASDI system from a deficit of 0.24% of taxable payroll to a surplus of 0.01% of taxable payroll.

The change to the 75-year period should not be interpreted to mean that the cost of the system decreased by 0.25% of taxable payroll. It is clear that the true cost is independent of the way it is estimated. The change in the period only meant that it had been decided to look at the cost and to measure it from a more optimistic point of view by disregarding the projected high-cost experience for years beyond the 75-year period. However, it is debatable whether current decisions should be based on their financial impact, say, 200 or 300 years from now, even though such long-range experience is greatly discounted through using the appropriate interest-discount factors.

There is a limit as to how much the projected near-future experience should be allowed to be offset by the projected far-distant future. This limit is (and should be) a subject of judgment. I believe that, in general, most individuals tend to assign a disproportionate amount of weight to the near future.

Under this situation, it could be argued that we should try to retain as much of the present recognition of long-range effect as possible. I recommend that there should be no shortening of the OASDI valuation period from the present 75 years. However, I have prepared estimates of the effect of a 25-year valuation on the level-cost of OASDI according to the current cost estimates, purely for illustrative reasons.

I estimate that, if we change from a 75-year period to a 25-year period, the OASDI level-cost of the benefit payments and administrative expenses would be reduced from 8.72% of taxable payroll to 8.06%. At the same time, the level-equivalent of the contribution schedule would decrease from 9.88% of taxable payroll to 9.82%. The actuarial balance of the system would, therefore, be "improved" by +0.60% of taxable payroll by changing from a 75-year valuation period to a 25-year period.

Mr. VANIK. Mr. Chairman?

The CHAIRMAN. Yes.

Mr. VANIK. If I may, before you leave this point, when we talked about the receipts being equivalent to the outgo for a 12-month period, do you as an actuary—you said it should not be any less than 12 months—does it grieve you very much that it should be as large as it would be projected under present law, unchanged, which would provide for a reserve of about 24½ months; wouldn't it?

I was wondering how disturbed you are as an actuary with the growth of the fund under present law and the kind of a reserve that it establishes. Does that disturb you? Is it unsound actuarial practice to have a reserve of that dimension?

Mr. MYERS. I don't think that any actuary would ever say it is unsound to have too much money present.

Mr. VANIK. Let me ask you this. How would we compare with a private insurer in the amount of our reserve?

Mr. MYERS. Relative to a private pension plan, OASDI would still not be very largely or excessively funded. However, I would say that under present law there is so much of a positive or favorable actuarial balance that I would think that something should be done about bringing benefits up to date or something like that. If you merely ask—well, suppose we kept benefits in the present law, I would say that they are so much overfinanced that then you should reduce the contribution rates and not build up such a large fund.

Mr. VANIK. Either that or increase benefits.

Mr. MYERS. Or increase the benefits, one or the other.

Mr. VANIK. Either course is acceptable to you as an actuary?

Mr. MYERS. Yes.

Mr. VANIK. So, as a matter of fact, there is no reason why some of this increase in the actuarial fund couldn't be used to increase the size of benefit over what has been recommended by the President? In other words, there is no logical reason why you couldn't increase benefits to 15 percent and pay for it a little bit out of the reserve that is accumulating to the distress of the administration, apparently?

Mr. MYERS. Under the President's proposal, the fund will not accumulate nearly as rapidly as under present law. It was present law that I was referring to when I said that the fund would—

Mr. VANIK. Yes, but if that proposal were modified, is there any reason why the rate of benefit increase couldn't be increased and still provide some relief on the tax and at the same time leave enough of a reserve to permit an increase in benefits higher than the President's projection?

Mr. MYERS. Under the President's proposal the system would just be, as Commissioner Ball has shown on the chart, in very close actuarial balance, and if further benefits were provided, there would have to be further financing at some time, not in the early years perhaps, but later on. Later on, you would have to have higher contribution rates.

The CHAIRMAN. Mr. Myers, I think you are missing his point. What he is suggesting is that the tax rate be left alone.

Would the existing rates of tax support a 15-percent increase? That is his question, as I understand it, Mr. Vanik.

Mr. VANIK. A 15-percent increase and also some stretchout, some residual stretchout in the increased rates that are already projected by existing law.

Mr. MYERS. As I understand, Mr. Vanik, what you are saying is that, if the contribution rates were not stretched out as far as in the proposal but were stretched out a little, wouldn't there be some additional money available for further benefit liberalization over the proposal? The answer is "Yes," but there would not be, depending on how the stretchout occurred, sufficient additional money available to go from 10 to 15 percent.

Mr. VANIK. Well, we are talking about \$221 $\frac{1}{4}$ billion. That is quite a lot of money that is not coming into the fund because of the administration's reduction in the growth of the fund. Certainly if that \$221 $\frac{1}{4}$ billion were utilized in some measure for distribution increases,

it could do a tremendous amount and that would take care of it for about 50 years.

Mr. BALL. Mr. Vanik, may I direct your attention to the middle chart over there? You will see that loss of a quarter of a percent of payroll—minus 0.25 percent—that is attributable to the stretchout as against the present schedule in the law, so that if you were not to stretch it out as much as the President's proposal but more than the present schedule, the loss would have to be somewhere between zero and a quarter of 1 percent. And to go from a 10-percent to a 15-percent benefit increase would require 0.43 percent in additional income.

I think the answer to your question is, you could get some of the financing you would need from a change in the schedule that would recover some of that 0.25 percent, but you would have to also have additional sources of income to go from 10 to 15 percent.

Mr. VANIK. Mr. Chairman, I just can't understand how we can reduce the fund by \$22 $\frac{1}{4}$ billion and not be able to take care of the increase that is proposed by an additional 5 percent.

The CHAIRMAN. Mr. Vanik, one of the explanations, I think, is that we are talking in terms of a very short period of time.

Mr. VANIK. That is right.

The CHAIRMAN. But, if we do what is being suggested, we are talking about a 75-year period, apparently. It would make a great difference in your calculations, would it not, if you were looking at a 75-year period versus a 3- or 4-year period? Is that the explanation?

Mr. MYERS. That is the explanation, Mr. Chairman. The \$22 billion, if it is spread out over a long period of time, cannot really produce very much of a benefit increase, perhaps 1 or 2 percent.

The CHAIRMAN. That is right, it is spread over 75 years. That is your point?

Mr. MYERS. Yes, Mr. Chairman.

The CHAIRMAN. Let me go back now. I want to talk to you about the hospital-insurance trust fund, again Mr. Myers.

Do you remember the interrogation that occurred when we were considering this matter in 1965, when former Secretary Celebrezze sat there and he was surrounded by some of the finest looking, most intelligent men I had seen up to that time—you, and Mr. Ball, and Mr. Cohen, and a few others—when I was interrogating you about the costs of this hospital program and whether or not there was a possibility that for 5 or 6 years of hospital costs might rise at a rate of about twice the increase of the earnings levels? Do you remember all that?

Mr. MYERS. Yes, Mr. Chairman.

The CHAIRMAN. Without trying to make myself the one with the white hat and somebody else with a black hat, who turned out to be more nearly correct? Have hospital costs gone up over a 5-year period at about twice the rate of the rise in earnings levels?

Mr. MYERS. That, unfortunately, is correct.

The CHAIRMAN. It is unfortunate. That is the explanation in large part, I guess, for the deficit of 0.77 percent of payroll as estimated in September of 1969. Is that the reason?

Mr. MYERS. That is the majority of the reason, Mr. Chairman.

The CHAIRMAN. The minority we need not consider because it is such a small minority?

Mr. MYERS. No, sir. The other portion is the fact that hospital utilization rates have been higher than——

The CHAIRMAN. We estimated——

Mr. MYERS (continuing). We originally estimated.

The CHAIRMAN. Pardon me, but you remember in that connection we estimated what they were going to be and then multiplied a 20-percent safety factor into it; didn't we?

Mr. MYERS. We multiplied, actually, by a 20-percent factor, of which 10 percent was the real safety factor. The other 10 percent was to say that instead of utilization rates gradually increasing over a 5-year period, they would be that much higher immediately.

The CHAIRMAN. Yes, but we could use both 10 percents for this purpose, couldn't we? We had this same situation in 1967. We had to borrow from the cash benefit funds by transferring taxes that were under existing law applicable to those cash funds for the benefit of the trust fund; did we not, in 1967?

Mr. MYERS. Mr. Chairman, I think that in 1967 what we did was add additional amounts to the hospital insurance trust fund, not move anything over from the cash benefit fund.

The CHAIRMAN. That may not be the technical way to describe it, but down in my country I think they would have said they had taken water out of one pail and put it in the other with a gourd or something. It is immaterial how we discuss it or how it happened. I know we did find ourselves short in the hospital trust fund on that occasion. Now we find ourselves short just 2 years later.

What are you going to do with this program? Are you going to have a shortage every 2 years?

Mr. MYERS. Mr. Chairman, I think that now we have a much better fix on what the costs are, because at last, say in the last 6 months, I have been able to obtain quite good data on the operation of the program during the first year and a half, so that I have a good idea of utilization rates.

I also found from these data that the utilization rates were not staying level, but that there was a slight increase from year to year, and I built that factor into the new cost estimates.

The CHAIRMAN. Don't think for a minute I am criticizing you. I wouldn't do that under any circumstances, and certainly not in public, because I have too much respect for you. And, needless to say, I went along with you in 1965. You convinced me.

But what I am leading up to is this: If your estimates had been right in 1965 on the basis of the tax rates we levied to support this hospital fund, and we had enacted this \$9,000 taxable-wage base, wouldn't it be possible for us at the same time to reduce the nine-tenths projected rate for the hospital trust fund as well as to reduce the rates for the cash-benefit funds, had our estimate been correct?

Mr. MYERS. That is correct, because under the original estimate it was assumed that hospital costs and wages would rise in the future, but that the earnings base would stay fixed at the \$6,600 figure.

The CHAIRMAN. Since 1965, on the other hand, is it not true that we missed our estimates by about the equivalent of 1 percent of payroll in 4 years?

Mr. MYERS. Yes, that is correct, because the original estimate was 1.23 percent as the level cost of the program and the current estimate, as you know, is 2.27 percent.

The CHAIRMAN. Based upon a much higher—

Mr. MYERS. Based on a higher—

The CHAIRMAN (continuing). Taxable base.

Mr. MYERS (continuing). Taxable base, so that probably if the present 2.27 percent were still based on a \$6,600 earnings base it might be as high as 2.4 percent.

The CHAIRMAN. These facts are very disturbing to me and very alarming, really. I think we are going to have to make it a practice, whether I am here or somebody else is here, to look at this situation periodically, perhaps every 2 years, because I don't foresee—and I don't believe you do either—any immediate cessation in the rise in medical costs, particularly hospital costs, do you?

Mr. MYERS. No, Mr. Chairman. That is why I put in a much slower grading-down of the annual increases in hospital costs. In these new estimates, I allowed a 15-percent increase for 1969, which is about the same as we have been having for the past few years, because the experience in the first few months of this year seems to indicate that there has been no slowdown at all. And then I tapered it off very slowly, having a 14-percent increase for 1970, 13 percent for 1971, and so forth.

I am certain that at some time this increase has to grade off, as I thought before, but it seems as though it is much further in the future than I had imagined possible.

The CHAIRMAN. But isn't it a fact that we know enough about the hospital-insurance trust fund to also know that we will be faced periodically with the absolute necessity of increasing the wage base subject to tax?

Mr. MYERS. The estimates in the past have not—

The CHAIRMAN. I am not talking only about the past. But I say we have learned enough from the past to know that we will be perpetually, that is, periodically, having to increase the wage base subject to the tax in order to keep it anything like actuarially sound. Aren't we faced with that necessity?

Mr. MYERS. With the contribution rates in the bill before you, it is assumed that the earnings base will go up automatically in the future as wages rise. If the Congress were to enact just a \$9,000 level base, there would have to be higher tax rates.

The CHAIRMAN. I know. That is what I am saying. But isn't it a fact that the base will have to go up?

Mr. MYERS. Either the base or the rates, one or the other.

The CHAIRMAN. Sure, one or the other has to go up if the fund is to remain actuarially sound, so we are burdened now with a program that we must recognize is not going to ever be actuarially sound on any predictions we make without a tax increase periodically or a wage base increase or a combination of the two. Isn't that so?

Mr. MYERS. That is correct.

The CHAIRMAN. Now, as you look down the road 25 years, have you any idea where the base would have to be and what the rate of tax would have to be at that time, 25 years from now, in order for it to be taking in more money than we are spending out of it?

Mr. MYERS. There is either one of two possibilities, or else combinations of them. One would be that if the rate were kept at the 1.8 percent rate for the employer and employer combined, then the base would have to go up either by automatic adjustments or by statutory adjustments by something like 4 percent per year.

On the other hand, if the base stays at \$9,000, then there would have to be an increase in tax rates over the next 25 years, with the ultimate rate being somewhere around 2.7 percent, as compared with the present 1.8 percent.

The CHAIRMAN. That is 25 years from now we are talking about?

Mr. MYERS. Yes, sir.

The CHAIRMAN. And this is in spite of the fact that when we enacted this program in 1965 we thought—you thought—that it was not going to be necessary, as I remember, for the base itself to be raised periodically.

Mr. MYERS. Yes, that is correct. In the original law I had estimated that a rate going up to 1.6 percent, along with the base remaining at \$6,600, would be sufficient.

The CHAIRMAN. For the 25-year period.

Mr. MEYERS. Over a 25-year period.

The CHAIRMAN. You are aware, I know, Mr. Secretary, since you have been in office that this is the situation. That is why you are trying to bring to us some number of amendments that would in your opinion tend to moderate these increases in cost into the future. That is your purpose in these suggestions, apparently.

Mr. VENEMAN. That is the purpose of the entire proposal that is before you, Mr. Chairman—to bring the two programs into balance on an actuarially sound basis.

The CHAIRMAN. Let me, if I may, ask you about your cost-of-living increase, Mr. Secretary. That would go into effect under the bill and be available for the year 1971, I believe the Secretary said.

Mr. VENEMAN. 1971, right, based upon the comparison with the comparable quarter of the previous year assuming there was a 3-percent increase.

The CHAIRMAN. Let me ask you whether or not, Mr. Myers, you have taken into consideration these costs-of-living increases in your estimates of cost in the early years for purposes of determining your needs.

Mr. MYERS. Mr. Chairman, you are referring to the short-range cost estimates?

The CHAIRMAN. Yes.

Mr. MYERS. In the short-range cost estimates that are presented in this document that I believe you have been given, the effect of the cost of living adjustments were not included in that particular table 3. I have calculated them, though, and they make a little difference in the growth of the fund.

(The document referred to follows:)

SUMMARY RESULTS OF NEW COST ESTIMATES FOR PRESENT OLD AGE, SURVIVORS AND DISABILITY INSURANCE AND HEALTH INSURANCE SYSTEMS AND FOR PRESIDENT'S PROPOSAL

This memorandum will summarize the results of the new cost estimates for the Old-Age, Survivors, and Disability Insurance system that have just now been completed. At the same time, it is essential that the current actuarial situa-

tion of the Hospital Insurance system should be considered simultaneously. Although the revision of the HI cost estimates has not yet been completed, preliminary estimates have been made, and these should be close to the final results that will be produced subsequently. Information will also be presented as to the cost aspects of the proposal just made by President Nixon.

It will be recalled that the cost estimates for the OASDI system which were contained in the 1969 Trustees Report showed a *positive* long-range actuarial balance (i.e., a financial surplus of 0.53% of taxable payroll). The new cost estimates show that this *positive* balance is increased to 1.16% of taxable payroll. The principal reasons for this change, and the amount that each contributes to the increase of 0.63% of taxable payroll in the financial surplus, are as follows:

1. The use of a higher earnings-level assumption (namely, 1969 earnings as against 1968 earnings)—.22% of taxable payroll.

2. The use of a higher interest-rate assumption (namely, $4\frac{3}{4}\%$ as against $4\frac{1}{4}\%$)—.11% of taxable payroll.

3. The use of higher labor-force participation rates for both men and women (based on recent actual experience), which, because of the weighted benefit formula and the provision preventing, in essence, receipt of benefits on more than one earnings record, results in a greater increase in estimated income than in estimated outgo—.23% of taxable payroll.

4. Update of other factors—.07% of taxable payroll.

Now, turning to the cost estimates for the HI system, it will be recalled that the estimates contained in the 1969 Trustees Report showed a *negative* long-range actuarial balance (i.e., a financial deficit) of 0.29% of taxable payroll. The preliminary new cost estimates show that this *negative* balance has become larger—namely, -0.77% of taxable payroll. The principal reasons for this change are as follows:

1. The use of higher hospital utilization rates as the initial 1969 base and the introduction of an assumption that these rates will increase gradually over the next decade (at an average annual rate of about 1%) both of which assumptions are based on an extensive analysis of recent operating experience.

2. The use of higher assumed increases in hospital per diem costs than previously assumed (namely, 15% for 1969, 14% for 1970, 13% for 1971, grading down to 4% after 1977, as compared with the previous assumption of 12% for 1969, 9% for 1970, $7\frac{1}{2}\%$ for 1971, grading down to $3\frac{1}{2}\%$ after 1974), which assumption is based on analysis and projection of recent operating and other experience.

Offsetting slightly the foregoing increased-cost assumptions for the HI cost estimates are several other changed assumptions including the following:

1. The use of a higher interest rate (namely, 5% as against $4\frac{1}{2}\%$).

2. A reduction in the estimated cost of the extended care facility benefits (since the previous estimate seems to have included the assumption of too rapid an increase in the utilization of such benefits).

3. As in the OASDI estimates, higher labor-force participation rates and a higher initial payroll-tax base and higher assumed increases in future earnings levels (e.g., ultimately, 4% per year as against the $3\frac{1}{2}\%$ used previously).

Finally, I might point out that an increase in the taxable earnings base from the present \$7,800 per year would have a favorable effect on the financing of both the OASDI and HI systems. For example, a change to \$9,000 would increase the positive actuarial balance of the OASDI system by 0.23% of taxable payroll and would decrease the negative actuarial balance of the HI system by 0.17% of taxable payroll.

President Nixon has proposed that the benefit provisions of the OASDI system should be changed in the following manner:

1. An across-the-board benefit increase of 10%.

2. A modification of the retirement test, so that the annual exempt amount would be increased from \$1,680 to \$1,800, and the "\$1 for \$2" reduction would apply to all earnings in excess of the annual exempt amount (instead of only to the first \$1,200 above the annual exempt amount, as in present law).

3. Payment of dependent parent's benefits on accounts of old-age beneficiaries and disability beneficiaries.

4. Increase from age 18 to age 22 in the limit before which sons and daughters of the wage earner must have been disabled in order to receive child's benefits.

5. Modify the retirement test as it applies to the year of attainment of age 72, so that earnings in and after the month of attainment are not counted against the annual test.

6. Have an age-62 computation point for men, instead of age-65 (i.e., having the same point for men that women have under present law).

7. Pay widow's benefits of 100% of the PIA when first payable at or after age 65, graded down to 82½% when first claimed at age 62.

8. Increase in the taxable earnings base from \$7,800 to \$9,000, effective for 1972; thereafter, automatic adjustment of the earnings base in accordance with changes in the level of wages in covered employment.

9. Automatic adjustment of the OASDI benefits in accordance with changes in the cost of living and automatic adjustment of the annual exempt amount of the retirement test in accordance with changes in the level of wages in covered employment; insofar as the OASDI system is concerned, the cost of these benefit changes would be financed by the automatic adjustment of the earnings base, while insofar as the HI system is concerned, the additional financing due to the automatic adjustment of the earnings base would have a significant effect on its actuarial status.

10. Changes in the contribution schedules, as shown in Table 1.

Under the President's proposal, the long-range actuarial balance of the OASDI system is estimated to be -0.09% of taxable payroll, while the corresponding figure for the HI program is +0.06% of taxable payroll. Both of these relatively small balances are within the limits generally acceptable, and so the proposal is in actuarial balance.

Table 2 shows the progress of the combined OASI and DI Trust Funds and of the HI Trust Fund for fiscal year 1970-73 under present law. Table 3 gives similar data for the President's proposal.

[Attachments.]

TABLE 1.—COMPARISON OF PRESENT AND PROPOSED CONTRIBUTION SCHEDULES
[In percent]

Period	Combined employer-employee		Self-employed	
	Present	Proposed	Present	Proposed
OASDI rate:				
1970.....	8.4	8.4	6.3	6.3
1971-72.....	9.2	8.4	6.9	6.3
1973-74.....	10.0	8.4	7.0	6.3
1975-76.....	10.0	9.2	7.0	6.9
1977-79.....	10.0	9.6	7.0	7.0
1980-86.....	10.0	9.8	7.0	7.0
1987 and after.....	10.0	10.0	7.0	7.0
HI rate:				
1970.....	1.2	1.2	.6	.6
1971-72.....	1.2	1.8	.6	.9
1973-74.....	1.3	1.8	.65	.9
1975.....	1.3	1.8	.7	.9
1976-79.....	1.4	1.8	.7	.9
1980-86.....	1.6	1.8	.8	.9
1987 and after.....	1.8	1.8	.9	.9
Combined OASDI-HI rate:				
1970.....	9.6	9.6	6.9	6.9
1971-72.....	10.4	10.2	7.5	7.2
1973-74.....	11.3	10.2	7.65	7.2
1975.....	11.3	11.0	7.65	7.8
1976.....	11.4	11.0	7.7	7.8
1977-79.....	11.4	11.4	7.7	7.9
1980-86.....	11.6	11.6	7.8	7.9
1987 and after.....	11.8	11.8	7.9	7.9

TABLE 2.—ESTIMATED SHORT-RANGE PROGRESS OF TRUST FUNDS UNDER PRESENT LAW

[In billions of dollars]

Fiscal year	Contribution income	Other income ¹	Benefit outgo	Other outgo ²	Net income	Fund at end of year
OASDI trust funds:						
1970.....	33.4	1.8	27.3	1.2	6.8	38.7
1971.....	36.3	2.3	28.4	1.2	8.9	47.6
1972.....	40.3	2.8	29.6	1.2	12.3	59.9
1973.....	43.9	3.5	30.7	1.3	15.4	75.3
HI trust fund:						
1970.....	4.7	.8	5.2	.1	.2	2.2
1971.....	4.9	1.0	6.2	.1	—1.5	1.7
1972.....	5.2	.8	7.3	.1	—1.5	.2
1973.....	5.6	.7	8.5	.1	—2.2

¹ Interest income, payments from general fund for noninsured persons and military service wage credits, and (for HI) payments from railroad retirement system.

² Administrative expenses and (for OASDI) payments to railroad retirement system.

TABLE 3. ESTIMATED SHORT-RANGE PROGRESS OF TRUST FUNDS UNDER PROPOSAL

[In billions of dollars]

Fiscal year	Contribution income	Other income ¹	Benefit outgo	Other outgo ²	Net income	Fund at end of year
OASDI trust funds:						
1970.....	33.4	1.8	28.0	1.2	6.1	38.0
1971.....	34.7	2.1	31.6	1.3	3.9	41.9
1972.....	37.0	2.3	34.0	1.4	3.9	45.7
1973.....	40.8	2.6	35.2	1.4	6.8	52.6
HI trust fund:						
1970.....	4.7	.8	5.2	.1	.2	2.2
1971.....	6.0	1.1	6.2	.1	.7	2.9
1972.....	7.9	.9	7.3	.1	1.2	4.2
1973.....	8.6	1.0	8.5	.1	1.0	5.2

¹ Interest income, payments from general fund for noninsured persons and military service wage credits, and (for HI) payments from railroad retirement system.

² Administrative expenses and (for OASDI) payments to railroad retirement system.

Mr. MYERS. In other words, the fund would not grow quite as rapidly. The CHAIRMAN. How much of a difference?

Mr. MYERS. Mr. Chairman, if the cost-of-living increase were taken into account under certain moderate assumptions about increases in the Consumer Price Index, the fund at the end of fiscal year 1973 would be reduced from the \$52.6 billion shown on table 3 of this memorandum to \$47.5 billion, as shown on table 3 of the supplementary memorandum.

(The supplementary memorandum referred to follows:)

SUMMARY RESULTS OF NEW COST ESTIMATES FOR PRESENT OASDI AND HI SYSTEMS AND FOR PRESIDENT'S PROPOSAL

This memorandum supplements my memorandum of September 25 on the above subject. Table 3 of that memorandum showed the progress of the combined OASI and DI Trust Funds and the progress of the HI Trust Fund for FY 1970-73 under the President's proposal. Such figures were presented under the assumption that the provision for automatic increases in benefit amounts for changes in the Consumer Price Index would not occur in the period involved. In part, this was done because all of the details of this adjustment procedure had not been made final at the time. The attached Table 3a presents similar figures under the assumption that the CPI will have certain specified increases in the future, as indicated specifically in the Note on the table.

TABLE 3A.—ESTIMATED SHORT-RANGE PROGRESS OF TRUST FUNDS UNDER PROPOSAL

[In billions of dollars]

Fiscal year	Contribution income	Other income	Benefit outgo	Other outgo ²	Net income	Fund at end of year
OASDI trust funds:						
1970.....	33.4	1.8	28.0	1.2	6.1	38.0
1971.....	34.7	2.1	32.2	1.3	3.4	41.3
1972.....	37.0	2.2	35.8	1.4	2.0	43.3
1973.....	40.8	2.4	37.6	1.4	4.2	47.5
HI trust fund:						
1970.....	4.7	.8	5.2	.1	.2	2.2
1971.....	6.0	1.1	6.2	.1	.7	2.9
1972.....	7.8	.9	7.3	.1	1.2	4.2
1973.....	8.6	1.0	8.5	.1	1.0	5.2

¹ Interest income, payments from general fund for noninsured persons and military service wage credits, and (for HI) payments from railroad retirement system.

² Administrative expenses and (for OASDI) payments to railroad retirement system.

Note: The above figures for the OASDI trust fund assume that the Consumer Price Index will increase by 4 percent from the 3d quarter of 1969 to the 3d quarter of 1970, by 3 percent from the 3d quarter of 1970 to the 3d quarter of 1971, and by less than 3 percent from the 3d quarter of 1971 to the 3d quarter of 1972. The figures in table 3 did not make the assumption of any increase in the CPI.

Mr. MYERS. Of course, as you realize, in this period there would be no effect of the automatic increase in the earnings base, because that would first be done for calendar year 1974.

The CHAIRMAN. That would come in, in 1974. That is the reason I raised the question about it.

Let me ask you this, Mr. Myers. What estimate have you made of the increase in the Consumer Price Index between February 1968, when the last benefit increase became effective, and the effective date of March 1970 of the proposal before us? What is the total in your estimate of what the increase in the Consumer Price Index will be?

Mr. MYERS. Mr. Chairman, the actual figures that have been released up to date are up through August.

The CHAIRMAN. I know.

Mr. MYERS. The increase up to then has been 8.2 percent.

The CHAIRMAN. I know that.

Mr. MYERS. Any increase we have between August and March would have to be added to that.

The CHAIRMAN. That is right. What is your estimate?

Mr. MYERS. I have not made any estimate of what the cost-of-living—

The CHAIRMAN. I am trying to find somebody that will tell me that there is going to be some moderation in the rate of the price increase between now and March. I was hoping you would give me some estimate that indicated that. It will be 10 percent, will it not?

Mr. MYERS. I think that by March this figure of 8.2 percent will have increased, I would estimate, to 10 percent and possibly a little higher. But I don't believe it would go above 11 percent.

The CHAIRMAN. Somewhere between 10 and 11 in your opinion?

Mr. MYERS. I think so, Mr. Chairman.

The CHAIRMAN. That is what I wanted to get at.

You have heard some agitation already on the committee for a 15-percent increase. Of course, if I had my way, I would increase these benefits about 50 percent and satisfy more people, if I could just find a way to pay for it. You know, we increased the benefit—what was it? Thirteen percent, wasn't it, in 1967?

Mr. MYERS. Yes, sir.

The CHAIRMAN. And I found out that some of my people at home who were the beneficiaries of that were actually provoked and somewhat angered at me because they said if I could get them a 13-percent increase, I could have gotten them a 20- or 25-percent increase.

But, anyway, there is some talk of a 15-percent increase.

Now, what type of tax base compared to existing law would you tell us we would have to have in order to provide for a 5-percent benefit increase? Let's just take a date that would begin, say, January 1, 1970. I am trying to set down a case that you could make your estimates on.

Mr. MYERS. If there was a 15-percent across-the-board increase, then from a—

The CHAIRMAN. We are going to use 1969 earnings levels for this purpose, are we?

Mr. MYERS. Yes, sir.

The CHAIRMAN. All right.

Mr. MYERS. If the only change in the system were a 15-percent benefit increase, then you could finance this on a long-range basis—and, of course, also on a short-range basis—by maintaining the present earnings base of \$7,800 and the present tax schedules. However, this would still leave this sizable deficit in the hospital insurance system that you would have to take care of some other way.

The CHAIRMAN. Through a tax. That is the point I was getting at. Actually, a 15-percent benefit increase could be made available and effective at the first of the year without an increase in the rate of tax and without an increase in the base itself. Is that right?

Mr. MYERS. Yes, if that is all that was done.

The CHAIRMAN. I understand.

Mr. MYERS. In the President's proposal, you understand, there were other benefit changes too.

The CHAIRMAN. That is all I was asking you, just that one thing. Of course, you would have to add to it if you did put the disabled under plan A of medicare. You would have to add something to your tax in addition, enough to take care of your deficit presently existing. And if you increased the widow's benefit to 100 percent, you would have to do something to your base or to your tax rate, or if you did some of the other things that are presently in the proposal before us, an additional cost would be incurred.

But I was talking merely about a 15-percent across-the-board increase out of the existing situation. It could be done. You would be satisfied that the fund was actuarially in balance for the 75-year period.

Mr. MYERS. Yes, Mr. Chairman.

The CHAIRMAN. All right. We talked earlier this morning—Mr. Burke did, you too, Mr. Ball—about how soon you could get these out. And I am sure in response to the inquiries he has made you probably made another check with your people.

Do they, upon further checking, tell you anything different from what you said this morning?

Mr. BALL. No, Mr. Chairman. But I did go back immediately to make sure that everything I had said was absolutely correct, regardless of any amount of overtime, additional people, or additional work.

The problem is just the time it takes to reprogram, starting as they did about 2 weeks ago. There is just no way that we could see that

we could actually have the amounts reflected earlier than in the April 3 check.

The CHAIRMAN. Mr. Ball, you told us earlier in connection with your charts that this bill does preserve the principle that we established in 1967 of a man and his wife being assured of at least a benefit equal to 50 percent of the annual wage of that individual.

Mr. BALL. Yes, sir.

The CHAIRMAN. That is preserved here, you said. What would be the case insofar as this principle is concerned if we adopted the cost-of-living provision recommendation? Would it maintain that principle or not?

Mr. BALL. The principle would continue to be maintained on into the future, Mr. Chairman, on the basis of the principles for repromulgating the benefit table each time.

The CHAIRMAN. Well, there wouldn't be any tendency in connection with the cost-of-living provision, then, for the 50 percent at the top to be reduced, would there?

Mr. BALL. No, because as the earnings base goes up automatically, the principles that are written into the bill for extending the table preserve the 50 percent.

The CHAIRMAN. As the base is increased automatically as well?

Mr. BALL. Yes.

The CHAIRMAN. All right. The reason I ask you the question is because in the 1967 law we limited the wife's benefit to a maximum of \$105.

Now, have you changed that?

Mr. BALL. Mr. Chairman, I didn't address myself to that point because there is a technical error in the way the bill is drafted there. It was our intention to modify that \$105 limit in order to preserve this principle.

The CHAIRMAN. It is not in your bill, but you intended it to be?

Mr. BALL. Yes. It was overlooked at the last minute.

The CHAIRMAN. All right.

The idea of doing something to take care of the problem of allocating earnings under the retirement test in the year a person reaches 72, I have thought for a long time to be a good suggestion. I appreciate the fact that you have included it in this, Mr. Secretary.

I wonder, however, if it would be possible to define in the law how this would be done, rather than having it prorated, if I am quoting right, in an equitable manner in the regulations prescribed by the Secretary. I believe that is on page 16 of your bill.

Mr. BALL. Mr. Chairman, I believe that prorating applies only to self-employment income, the prorating.

The CHAIRMAN. It doesn't apply to earned income?

Mr. BALL. It applies only to self-employment. And the problem there is, as you know, that the self-employed—you have the problem of figuring it only once a year.

The CHAIRMAN. I thought it applied to both, but even where it applied, say—investment income, is that what you are talking about? Did you say "earned income"?

Mr. BALL. No; self-employed.

The CHAIRMAN. Oh, the self-employed individual you are talking about?

Mr. BALL. Yes. His net income is prorated over the months, because you don't have a report from him except once a year. That is just a technical point.

The CHAIRMAN. We have always tried to avoid, in the case of cash benefits, things of this sort being done by regulation, haven't we? If we decided to do this, couldn't we write something into the law itself rather than to leave it to regulation?

Mr. BALL. Yes, Mr. Chairman. I think the intent was merely to take the net income and divide it by the number of months at issue.

The CHAIRMAN. Now the provision automatically increasing the tax base when covered earnings rise seems to be a delegation of responsibility. Is it or is it not? You don't view it that way, do you?

Mr. BALL. I don't really, Mr. Chairman.

The CHAIRMAN. We are not saying what it will be by law. We are leaving that up to the Secretary to determine. It may be \$300. It may be \$600.

Mr. BALL. I think the way in which the bill is drafted, though, leaves the Secretary no discretion. It is merely the automatic result of a mathematical formula. As soon as average earnings in one quarter have gone up enough as compared with the base quarter the Secretary has to promulgate the new base, and the new table related to it, completely without discretion.

The CHAIRMAN. Well, we would at least lose some of the flexibility that has characterized the program in the past if we adopted such a provision as an automatic increase in the base.

Mr. BALL. I think that by definition, Mr. Chairman, any of these automatic provisions written into the law do that.

The CHAIRMAN. I have tried to find some precedent for this idea of an automatic increase in the taxable base, which is an automatic increase in taxes of certain individuals, that you could look to, to justify this, and I have been unable to find any precedent where the Congress ever in the past has, without certainty and definiteness, passed legislation that would provide for automatic increases in the taxes of individuals.

I am not talking about the rate of tax. I am talking about the total amount of tax, because an increase in any income of \$300 subject to a tax means I am going to pay more overall taxes. And I have never known of any time in the past when the Congress has ever left to such indefiniteness an uncertainty the matter of future taxes.

Mr. CONABLE. We have done that with pay, Mr. Chairman.

The CHAIRMAN. Not with taxes. We have done it with a lot of things, but we have never done it with taxes. I wondered if your department, Mr. Secretary, had made any check of the record in search of a precedent to justify it.

Mr. VENEMAN. I don't know of anything specifically.

The one thing that may be somewhat of a parallel may be the part B provisions of title 18 of the medicare program, although the man can get out of the program if he doesn't want to pay it.

The CHAIRMAN. I am talking strictly about taxes.

Mr. VENEMAN. But these would be mandatory increases on their part is their contributions, which would be promulgated by the Secretary under strict requirements that were established in the act and which would be very similar to these others.

The CHAIRMAN. What I talking about strictly is the tax and the total of the tax where an individual may be faced in an ensuing year with a larger unspecified amount of payment because of the development of some circumstance. I know we have jokingly referred to some conditions being met before something happened such as a "good 16-inch snowfall on the 4th of July in the State of Texas," but that would be rather certain too, I would think. The condition just never would arise.

But I haven't been able to find any precedent for this. I am a little bit disturbed by it.

Mr. VANIK. On that point, Mr. Chairman, what about the constitutional question? Wouldn't that pose a constitutional question? The Constitution gives it to Congress to determine the tax.

The CHAIRMAN. We would be enacting it, and I am sure the present Supreme Court would say that we delegated finally the responsibility to raise taxes. I think that would probably be the result of an appeal to the Court. I wouldn't want to prejudge the matter, however, for their benefit.

Let me ask you about military service credits, if I may, Mr. Ball.

When we considered the 1967 legislation, as I recall this question, the question was raised whether the social security trust funds were being properly reimbursed by the general fund for the actuarial cost of the gratuitous military service wage credits. I have forgotten what you told me at that time. Did you tell me that the general fund was properly and fully reimbursing you?

Mr. BALL. I think we told you two things, Mr. Chairman.

One was that we were pleased that we had at least gotten an actual appropriation for an amount where previously it had been postponed. But we also reported to you that Mr. Myers' estimate of what the figure should be had been reduced in the budget process.

The CHAIRMAN. That is my recollection. We asked you to report back to us, and you did that.

When was that report filed?

Mr. MYERS. Mr. Chairman, the committee report for the 1967 amendments—the same point was also brought out in the Senate committee report—contained language deploring the action of the Budget Bureau for arbitrarily reducing the estimate from \$120 million per year to \$105 million per year.

The CHAIRMAN. You had actually called it to our attention then?

Mr. MYERS. Yes.

The CHAIRMAN. You were not being reimbursed.

Mr. MYERS. This statement was in your report that was filed in 1967. But in the budget process, although the Department recommended the full \$120 million, the Bureau of the Budget did the same as they did in previous years and cut it back to \$105 million.

The CHAIRMAN. For this present fiscal year?

Mr. MYERS. Yes, for the fiscal year 1970.

The CHAIRMAN. 1970. They have still not actually given us enough, then?

Mr. MYERS. That is correct, Mr. Chairman.

The CHAIRMAN. What happened in 1968 and 1969? You told us, I believe, in 1969 they gave you \$90—

Mr. MYERS. I am sorry. It was \$105 million that they gave the trust fund, instead of the \$120 million that resulted from the actuarial calculations.

The CHAIRMAN. In 1969?

Mr. MYERS. Yes, sir.

The CHAIRMAN. What was the figure in 1968?

Mr. MYERS. The same situation.

The CHAIRMAN. You just haven't gotten in any one year the amount that you estimate the general fund owes?

Mr. MYERS. That is correct, Mr. Chairman.

The CHAIRMAN. Maybe we better provide here an appropriation. If we are going to provide for a tax increase, we might as well provide for an appropriation on the basis of your estimates too.

Mr. BYRNES. Would you yield?

The CHAIRMAN. You would be satisfied if we did that?

Mr. MYERS. I would be very satisfied.

The CHAIRMAN. Mr. Byrnes.

Mr. BYRNES. Maybe we better bring the Budget Bureau in here and find out what kind of actuaries they have. If they can run this show cheaper than Mr. Myers can run it by some Houdini trick, why, maybe we better get their services, Bob.

Mr. MYERS. I can assure you that they do not have any actuaries. I investigated why they made the reduction, and they had no explanation of it other than that they wanted to reduce the figure.

The CHAIRMAN. Mr. Secretary, let me ask you a question and leave Mr. Myers alone for a breathing spell.

If we adopt the social security recommendations before us and the \$90 OAA standard, how many social security beneficiaries in addition to the approximate—what is it—about a million who now get OAA benefits would also get OAA payments?

Mr. VENEMAN. Mr. Chairman, you are asking how many of the old-age assistance recipients also collect social security payments?

The CHAIRMAN. I know it is about a million now. But if we take your \$90 standard and enact the recommendations before us for social security changes, how many additional would be added to the million getting OAA?

Mr. BALL. Mr. Chairman, I don't think we have an estimate.

Mr. VENEMAN. Mr. Hawkins may have that in his figures.

The CHAIRMAN. I know Charlie would have that if anybody would.

Mr. HAWKINS. Mr. Chairman, the \$90 standard would increase payments by as much as \$10 in two States.

The CHAIRMAN. That would be the average.

Mr. HAWKINS. No, the average would be much lower than that. There are only 13 States including about a third of the recipients in which increases would occur as a result of a \$90 standard. The average in those 13 States would probably be more like \$4 or \$5 so that it is not going to have any large effect on the number of supplementary payments made in relation to social security benefits.

The CHAIRMAN. You mean by that that there would be 1,000, 2,000, or 10,000 or some such figure?

Mr. HAWKINS. Certainly something well under 100,000. These would be primarily cases in which there is no social security now and the \$90 would be an increase.

The CHAIRMAN. You gave an average figure of about \$4.

Mr. HAWKINS. For the 13 States.

The CHAIRMAN. What would the first year total be, the total cost?

Mr. HAWKINS. The cost estimates which were given this morning are based on the new formula as well as the \$90 figure.

The CHAIRMAN. It is?

Mr. HAWKINS. Yes.

The CHAIRMAN. For the first year?

Mr. HAWKINS. For the first year, yes.

The CHAIRMAN. How does the average social security payment to a widow and children compare with the proposed payments under the family assistance plan, Mr. Secretary.

Mr. VENEMAN. I think Mr. Ball can answer that.

Mr. BALL. I have the average under social security, Mr. Chairman, from that chart up there.

The CHAIRMAN. Let's take the case of a widow with two or three children, whatever you want to take, and see where it comes out.

Mr. BALL. The average for a widow with two children is shown here as \$255 a month.

The CHAIRMAN. Social security?

Mr. BALL. Social security.

The CHAIRMAN. What would it be under your family assistance?

Mr. VENEMAN. Roughly \$100 under the family assistance plan for a three-person family.

The CHAIRMAN. So that it would be much less.

Mr. VENEMAN. It would be \$1,300 a year.

The CHAIRMAN. All right then. Let's take this case. You said yours would be what?

Mr. BALL. \$255.

The CHAIRMAN. Let's take the two cases. Take into account the fact that one-half of unearned income, including social security benefits—I assume that would be unearned income?

Mr. BALL. Yes.

The CHAIRMAN. Would not be counted under the family assistance plan. What would be the average increase in income to these families?

Mr. VENEMAN. I missed the question.

The CHAIRMAN. Social security pays \$255. That is the amount that this family of three would get. That is not considered as earned income. It is unearned income and under the rule which you have in the bill for your family assistance plan, I understand you disregard one-half.

Mr. VENEMAN. Fifty percent of both unearned and earned income.

The CHAIRMAN. That is \$127.50.

Mr. VENEMAN. That is right.

The CHAIRMAN. We will help you, Mr. Secretary, because I want to know just what the increase in income of this particular family would be under the combination of social security and your family assistance plan. Would they get anything?

Mr. VENEMAN. I don't think there would be any increase because they would be above the \$1,300 base.

The CHAIRMAN. They would get nothing then?

Mr. VENEMAN. There would be no advantage in this particular case.

The CHAIRMAN. All right. Where they have social security, what do you figure would be the average increase with respect to the people who would be on both social security and your family assistance plan?

Mr. VENEMAN. Would this be under the family plan?

The CHAIRMAN. Yes, under the family plan. Do you have an estimate?

Mr. VENEMAN. I think we will turn to Mr. Hawkins again. Most people I don't think would qualify for both the social security and the family assistance plan.

Mr. BALL. Mr. Chairman, I think the problem is we are focusing on the average here.

The CHAIRMAN. That is probably not a good way to do it.

Mr. BALL. For the ones who are quite a bit below the average—who receive survivors benefits, say, even if they are only getting \$100 or \$125—you would disregard half of that, and since the three-person family would get \$100 you would bring in some of the survivors families for supplementation.

The CHAIRMAN. That leads to my next question. I wanted to know then how many who are on social security would also receive benefits under the family assistance plan.

Mr. BALL. Bob says he has made an estimate of that.

Mr. MYERS. Mr. Chairman, as you saw from the example, the average social security case would just miss getting the family assistance payment. That means that probably about 40 percent of the families on social security survivor benefits would get something from the family assistance plan. In my cost estimate for the family assistance plan, I came out with a figure of about \$400 million in family assistance payments going to survivor families under social security and railroad retirement.

The CHAIRMAN. The two together. Fine. Bob, how does that compare now with the assistance that they may be receiving part of them, or all of them, from one or the other of our welfare programs, aid to dependent children, for instance?

Mr. MYERS. Relatively few get both social security and aid to families with dependent children, somewhat less than 10 percent—I believe about 7 percent.

The CHAIRMAN. This would raise the number from 10 percent to about 40 percent or a little more.

Mr. MYERS. Perhaps 35 to 40 percent.

The CHAIRMAN. And your cost estimate ranges from some figure less than \$400 million up to \$400 million then?

Mr. MYERS. Yes.

Mrs. GRIFFITHS. Mr. Chairman, would you yield for one question?

The CHAIRMAN. Yes.

Mrs. GRIFFITHS. Did you also estimate how many women under this circumstances would then quit work?

Mr. MYERS. No; I have not estimated that. When I made my cost estimate, I took this factor into account in a general way as being a plus element, as against certain other minus elements. I didn't work it through on a case-by-case basis in the way the other estimate was made.

Mr. VENEMAN. I think there may be another element to Mrs. Griffiths' question. I think that any person that would quit work under this family assistance program would be worse off.

Mrs. GRIFFITHS. Mr. Chairman. Mr. Secretary, when I start asking you questions, what I might ask you is why are you deducting a cent from social security when a woman with children goes to work and I think I am going to be able to prove to you that that is why you are picking up these disabled women, that is why you are paying women who have children in school between 18 and 22 and that is why the big push is going to be in the future to pick up widows at 50 at 82½ percent and you are not going to be able, nor will anybody else, to withstand that kind of pressure.

You are going to remove these women from the labor market.

The CHAIRMAN. Mr. Secretary, that is an example of why I want to be present for her interrogation.

Mr. VENEMAN. It sounds like it will be an interesting interrogation, Mr. Chairman.

The CHAIRMAN. Mr. Secretary, I don't exactly understand how your provisions for an automatic benefit increase work. The bill seems to have, as I read it, two different sets of instructions on how to do it.

Mr. VENEMAN. We are back to the automatic increase under social security, Mr. Chairman?

The CHAIRMAN. Yes. One starts on page 9, line 4 of your bill if you will get it and then we have another set of instructions over on page 23, line 13. They don't seem to be the same, as I read it.

Mr. MYERS. Mr. Chairman.

The CHAIRMAN. All right, Bob.

Mr. MYERS. On page 23, you are referring to the automatic adjustment of the earnings base.

The CHAIRMAN. That is right. One is earnings and the other benefits.

Mr. BALL. The answer is very simple, Mr. Chairman. It is an error. The later one was the way the bill was originally drafted.

The CHAIRMAN. You know what we have always told you in the past, Bob. You fellows should tell us what you want us to do and let us draft the bill.

Mr. BALL. The one on pages 9 to 11 is the correct one that we have described in our presentation.

The CHAIRMAN. All right. Now, as I understand it, the provision for an automatic increase in the tax base is needed to finance the automatic cost of living increase in benefits. Is that the reason?

Mr. MYERS. That is at least one of the reasons.

The CHAIRMAN. Now, tell me the others.

Mr. MYERS. Another reason is because it is thought that this is a desirable way to keep the earnings base up to date and to assure that it will be kept up to date.

The CHAIRMAN. That is what I thought and another reason is to be certain that it goes up as the hospital trust fund requires it to go up. That is a part of it.

Mr. MYERS. Yes, Mr. Chairman, that is what the basis of the financing of the Hospital Insurance Trust Fund is—namely, that the level tax rate of 1.8 percent after 1970, when combined with an increasing earnings base that goes up with the trend in wages, will be sufficient to finance the program.

The CHAIRMAN. I would think that over an extended period of time, say a 10-year period, when your prices are going up, the increase in

your levels of earnings subject to the tax would be almost equal to your increases in outflow under the automatic adjustment of your benefit. I think that that might be the case. Not in only 1 year because there may be a lag, but over a period of time, won't your tax base on a rising income level just about equate with your cost of increased benefits as a result of price increases?

Mr. MYERS. In the cash benefits program, that is correct.

The CHAIRMAN. That is what I am talking about.

Mr. MYERS. Yes, sir.

The CHAIRMAN. Having that in my mind and thinking I remembered it, I thought there was some other reason perhaps for this automatic increase in your base other than the need to finance your increase in your cost of living automatic benefit rises.

Mr. MYERS. It does the two things, Mr. Chairman. In the cash benefits program, it finances the automatic adjustment of benefits and in the hospital insurance program, it enables you to have a level tax rate, rather than an increasing tax schedule.

The CHAIRMAN. I wondered if you wanted that in there to protect you against a mistake in your estimates or something, because, Bob, you have told us in the past, as I remember, that you could increase benefits to cover cost of living from time to time without any adjustment of the base or without any adjustment of the rate, because over a period earnings levels rise about like prices rise, by about the same percentage.

I wouldn't want to enact more taxes this time than we need if we enacted more in 1967 than we need.

Mr. MYERS. Mr. Chairman, you are quite correct that a number of years ago my estimates indicated that, leaving the base alone or only changing it very occasionally, the increase in wages would finance cost-of-living adjustments. However, that was back in the days when the cost-of-living was going up very slowly, and wages were going up perhaps 3 percent a year.

The CHAIRMAN. Oh, no. We are not going to let cost of living continue to go up. We are going to stop it here one of these days before long. We are already committed to that. We have been at it now for 69 years in this century and the average increase, as I recall, since the turn of the century has been about 2 percent a year, but it has come in greater percentages some years and less in others. It has averaged out about that.

Mr. MYERS. I think it has possibly averaged even less than 2 percent a year if you take out the very inflationary periods during the wars.

The CHAIRMAN. Yes, if you take those out it would be much less than 2 percent.

Mr. MYERS. When I made this statement several years ago about not having to change the earnings base, I was thinking in terms of prices going up about 1 percent or maybe $1\frac{1}{2}$ percent a year and wages going up about 3 percent a year.

However, at least for the foreseeable future, although we will undoubtedly slow down the cost-of-living increases somewhat, a level of increases of as low as $1\frac{1}{2}$ percent doesn't seem very likely. Therefore, I believed that the additional safety factor was needed of saying that you also ought to have the earnings base increase with wages to provide the financing necessary for the cost-of-living adjustments.

The CHAIRMAN. I understand in the short run, but I was talking about over a 10-year period of time that the thing pretty nearly adjusts out, but for a 1-year period you may be way off. But this is going to be automatic from here on out if we enact it.

You have me confused again, Bob, you or somebody, because as I read page 25, line 10, I understand it to mean that changes in the tax rate may also be needed. Is that another error?

Mr. MYERS. No. On page 25, line 10, this is a statement that the annual trustees' reports should include recommendations as to whether the tax rates in the next year or two are at an appropriate level.

The CHAIRMAN. That is what I am getting at.

Mr. MYERS. This is merely a recommendation. There is no authority to change the rates.

The CHAIRMAN. I understand that, but somebody thought of that and if you thought of it, it would be because you thought that a tax rate increase might be necessary, if I know you.

Mr. MYERS. I think that the reason that this was put in was from the standpoint of the economic situation; namely, that if the fund seemed as though it were going to be taking in too much money in the next couple of years, considering short-range economic conditions, the trustees might say to postpone a rate increase.

The CHAIRMAN. Why are you going to have them make this report every year?

Mr. MYERS. It is going to be included in the trustees' report. It includes nothing that couldn't already be done by the trustees, because they can always make recommendations.

The CHAIRMAN. I understand they can, but they don't do it on an annual basis and we don't ask them to do it on an annual basis. Is it because you have some fear about this automatic cost of living adjustment, that you are not fully protecting yourself against the cost of it?

Mr. MYERS. No. This statement, this suggested additional recommendation in the trustees' report, is not put in for any long range or even short range actuarial cost analysis reasons. This was put in for economic analysis reasons.

The CHAIRMAN. I can understand you asking for it with respect to hospital trust fund, but I am talking about OASDI. I would want it every year if I were handling the hospital trust fund the way it has been acting in the past. But you are convinced now that you have yourself fully protected on the rising costs of your automatic upward adjustments of benefit payments?

Mr. MYERS. Yes. I think that as far as the cash benefits side is concerned, this automatic adjustment of the earnings base would very conservatively finance automatic benefit increases, unless we came into a time when there was a run-away inflation. I think that possibility can be ignored.

The CHAIRMAN. What if we enact this program, Bob, and the future is somewhat like the past 20 years, so far as cost of living increases are concerned? It is my understanding that what was a dollar in 1949 has become 50 cents in 1969. Let's say for the next 20 years the same situation is true and we enact this program. What would the taxable wage base be at the end of 20 years?

Mr. MYERS. It would be roughly just about double what it is at the start.

The CHAIRMAN. It would be \$18,000.

Mr. MYERS. Yes.

The CHAIRMAN. It would have to be.

Mr. VENEMAN. Given all those factors.

The CHAIRMAN. That is right.

Mr. BALL. Mr. Chairman, on the other hand, as I think is clear to you already, if it had been put into effect in relation to the 1951 standard—if it had been made automatic at that time we wouldn't be far off from where we are now.

The CHAIRMAN. About \$200, more or less?

Mr. BALL. In other words, the Congress has acted to keep the base up to date. It is a question of putting an automatic increase in the base into the law, to make sure that the cost-of-living increases are soundly financed in the law itself. The other point that I think ought to be mentioned for the record, Mr. Chairman, is that, as you know, this is a matter of keeping the benefits up to date, and that if the earnings base is not increased from time to time, gradually, in relative terms, the protection that people have deteriorates.

Mr. VANIK. Mr. Chairman, I have a discrepancy here that I don't understand. I have before me a memorandum of October 1, 1969, which has on attachment C the table entitled, "Old Age Survivors and Disability Insurance," and on this table I find it at wide variance with the Secretary's testimony. In the Secretary's testimony this morning on page 34 he said that under the President's proposal the trust fund would reach \$52.6 billion instead of \$75 billion and on this attachment C, I find an estimate of asset value of the fund under present law of \$81.6 billion with it being reduced to \$54.8 billion under the President's proposal.

I wonder how we pick up the \$6 billion here in comparing these.

The CHAIRMAN. The difference between the \$75 billion and the \$81 billion?

Mr. VANIK. The whole table is out by \$2 billion or \$3 billion, but in the final asset value in 1973 it puts the fund at \$81.6 billion while the administration's testimony this morning said that there would be \$75 billion at the end of fiscal 1973. How can we reconcile those differences? which are correct?

Mr. MYERS. Mr. Vanik, I am not familiar with what you are referring to as attachment C.

Mr. VANIK. It is attachment C to a memorandum from your deputy, Mr. Lawrence Alpern, dated October 1, 1969.

The CHAIRMAN. You may now know about it Bob. Mr. Vanik, why don't you let him find out about it and tell you after he gets it.

Mr. VANIK. It is \$6 billion. It is worth our looking into.

The CHAIRMAN. I agree with you.

Mr. BYRNES. Who put the table out that you have?

Mr. VANIK. His deputy Lawrence Alpern.

Mr. VENEMAN. Who is the memo directed to, Mr. Vanik?

Mr. CORMAN. May I ask one question before we leave the wage base?

Mr. BALL. What is the date on that memo?

Mr. VANIK. October 1.

The CHAIRMAN. Let him complete it if he has it there, then.

Mr. VANIK. Table C, attachment C.

Mr. MYERS. Mr. Vanik, if you would look at attachment B, I think you would find the figures that I have been using. The difference is that attachment C is on a calendar-year basis and the figures I had discussed are on a fiscal-year basis. The end of fiscal year 1973 is June 30, 1973, and in another 6 months—the end of calendar year 1973—the fund would have increased by these additional amounts that you mention.

Mr. VANIK. The assets go up \$6 billion in a 6-month period?

Mr. MYERS. Yes, under present law, and by about \$2 billion under the proposal.

Mr. VANIK. Just so that I can understand, this attachment B is fiscal year and attachment C calendar year?

Mr. MYERS. Yes.

The CHAIRMAN. Mr. Corman?

Mr. CORMAN. I just wanted to ask what the wage base was in 1949 and what the rate was in 1949.

The CHAIRMAN. I was also going to ask how the benefits would compare in 1950 and 1969 had we had an automatic increase based upon cost of living for that period of time. The benefits would have been less than they are now.

Mr. MYERS. Mr. Chairman, I did make a study somewhat along these lines. I started with 1954 and assumed that the 1954 act had contained these automatic provisions as to the earnings base, as to benefits, and as to the exempt amount in the retirement test. I then analyzed what would the experience have been under those conditions as against what they actually were.

The CHAIRMAN. Give us that information then.

Mr. VENEMAN. I have the memo right here.

The CHAIRMAN. All right, go ahead.

Mr. MYERS. I think I have enough copies here for the committee members.

(The document referred to follows:)

HOW THE AUTOMATIC-ADJUSTMENT-OF-BENEFIT PROVISIONS OF THE ADMINISTRATION BILL WOULD HAVE OPERATED IF THEY HAD BEEN INCLUDED IN THE 1954 AMENDMENTS

This memorandum will present a factual study of how the automatic-adjustment-of-benefits provisions contained in the Administration Bill, H.R. 14080, would have operated in the past if they had been included in the 1954 Amendments. This will be considered separately for the general benefit level, the retirement test, and the earnings base.

Table 1 makes such comparison for the general benefit level. The actual past increases occurred as a result of the 1958 Amendments (7%), the 1965 Amendments (7%), and the 1967 Amendments (13%). The automatic adjustments would have occurred in 6 different years. The cumulative effect of the automatic-adjustment provisions on the general benefit level would have been that the beneficiaries would have fared somewhat better than they actually did during most of the past period, especially since they would have received the increases in a more current manner.

On the whole, this analysis indicates that the automatic-adjustment provisions would have operated very well if they had been enacted in the 1954 Amendments, in that the results thereof would have reasonably closely approximated what actually occurred.

TABLE 1.—COMPARISON OF BENEFIT INCREASES WHICH ACTUALLY OCCURRED SINCE 1954 AS CONTRASTED WITH WHAT WOULD HAVE HAPPENED UNDER AUTOMATIC-ADJUSTMENT PROVISION

[In percent]

	In year		Cumulative	
	Actual	Under proposal	Actual	Under proposal
As of January:				
1958.....		5.2		5.2
1959.....	7		7.0	5.2
1960.....		3.2	7.0	8.6
1963.....		3.8	7.0	12.7
1965.....	7		14.5	12.7
1966.....		4.2	14.5	17.4
1967.....		3.3	14.5	21.3
1968.....	13		29.4	21.3
1969.....		7.2	29.4	30.0

† Effective for February.

Mr. VENEMAN. I think the key paragraph is: "Cumulative effect of the automatic benefit provisions on the general benefit level would have been that the beneficiaries would have fared somewhat better than they actually did during months of the past period, but not quite as well as after 1967. The reason for that is that the 1967 amendments provided a benefit increase that was somewhat larger than necessitated by the change in the cost of living."

The CHAIRMAN. But as it balanced out, I think the point is still well taken that the benefits today are higher than they would have been had we enacted this in 1950. Somebody worked that up for me.

Mr. VENEMAN. Mr. Ball points out that the major problem would be the inequity that is caused by the lag.

The CHAIRMAN. Sure, there is always that in our operation. We wait some times until the inflationary crisis is over before we act. That is true.

Mr. VENEMAN. With the automatic provision, you would avoid that particular problem.

The CHAIRMAN. That is true. Let me ask this additional question of you, Mr. Secretary. It is my understanding that under the OASDI program that you have here, the minimum payment would raise to \$61.

Mr. VENEMAN. \$61.

The CHAIRMAN. From \$55 as it is now. The OAA and the ADC payment standard would be \$90?

Mr. VENEMAN. Right.

The CHAIRMAN. How are we to reconcile paying \$61 under the contributory program and a larger payment of \$90 under the non-contributory program?

Mr. VENEMAN. Actually, you have that discrepancy under the present system, Mr. Chairman. As Mr. Hawkins just mentioned, most of the grants under the public assistance programs in practically every State have been higher than, or almost up to, the \$90, so that we are not changing too much except the financial structure. That is the major change.

The CHAIRMAN. Actually, I don't think it is a matter of too much concern, because the person getting \$61 in all probability would be raised to \$90, anyway.

Mr. VENEMAN. That is correct. In most cases they would be, because we are talking about a minimum.

The CHAIRMAN. I wanted to bring out that the \$61 person would be eligible for the \$90 minimum payment under the other program. Fine.

I have a number of questions I want to ask about the welfare program, but I don't want to monopolize the afternoon. I will come back to them later.

Mrs. GRIFFITHS. Mr. Chairman?

Mr. CORMAN. Mr. Chairman?

The CHAIRMAN. I yield to you.

Mr. CORMAN. On that same point, I don't think we got in the record what the wage base or rate was in 1949.

The CHAIRMAN. Let's let him prepare that for us. I want to know how much the benefits percentage-wise have increased over that period of time and how much cost of living also has increased over that period of time.

Mr. CORMAN. One final question on the chart entitled, "Decline in Real Value of Benefits Since 1954." Do I understand correctly that the objective of the automatic increase is to keep that line as nearly straight as possible at the 100 point, taking into consideration that there will be a dip down to 97 and back up to 100 during the course of the year if we assume there is a 3-percent change in the CPI.

Mr. MYERS. That is correct.

Mr. CORMAN. Thank you.

The CHAIRMAN. Mr. Ball, in connection with what I am asking, don't bring back any set of figures that has the rising cost of medical care on the one side without giving us credit for a program of benefits there too. You told us when we enacted it that it was worth the equivalent of about a 9- or 10-percent increase in benefits. So crank that into it on the benefit side.

Mr. CONABLE. As I understand your query of them, there will be some sort of a chart made up showing what would have happened to social security benefits over the same period of time if the cost of living feature had been put in, let's say in 1949. That is the purpose of your inquiry.

The CHAIRMAN. Effective 1950, yes.

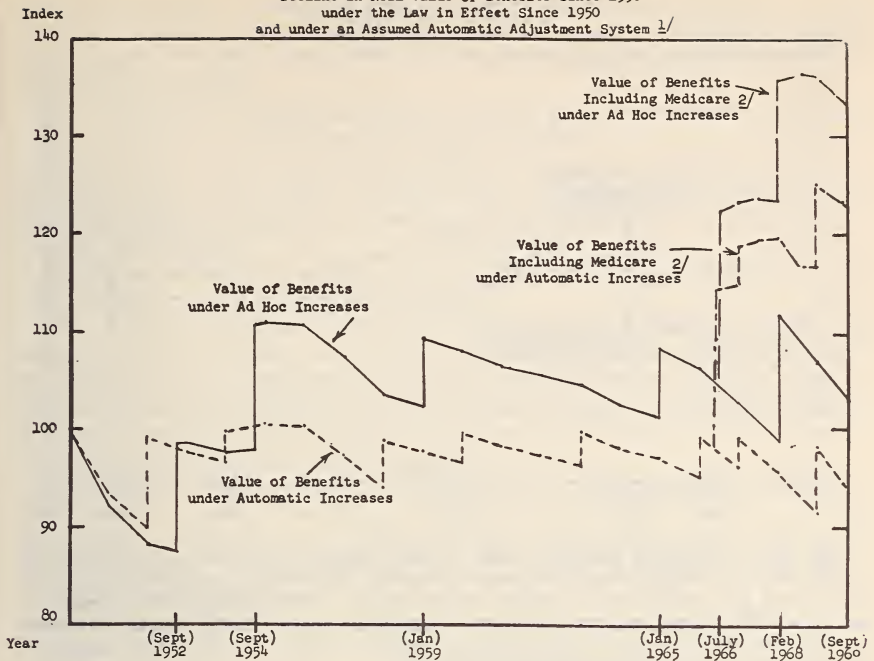
Mr. CONABLE. Yes. Good.

The CHAIRMAN. I want to know what the benefits would have been compared to today's benefits. We asked where the wage base would have been and they said it would have been about the same.

(The following information was received by the committee:)

Included in the testimony presented to the Committee was a chart showing the decline since 1954 in the real value of social security benefits due to the lag in increasing benefits as prices rose. Request was made by the Committee for a similar chart showing the situation since 1950, including in the value of benefits the value of Medicare benefits provided under the 1965 amendments, and showing also what the situation would have been had the Administration's proposal for automatic adjustment of benefits to increases in prices been in effect beginning in 1950. The following chart is submitted in response to the Committee's request.

Decline in Real Value of Benefits Since 1950
under the Law in Effect Since 1950
and under an Assumed Automatic Adjustment System ^{1/}



As was indicated in the testimony, each of the three *ad hoc* benefit increases that were enacted after 1954 brought the purchasing power of social security benefits back to approximately the 1954 level as of the times they were enacted. The three increases together brought the real value of the benefits as of February 1968 to about what it was in 1954.

The comparison of 1968 with 1950 rather than 1954 shows a larger improvement in cash benefit levels than does the 1954 comparison. The greater improvement in benefit levels since 1950 as compared with 1954 results, as was pointed out in the testimony, primarily from the fact that substantial improvement in benefit levels over and above what was needed to bring benefits up to date with prices were made in the 1952 and 1954 amendments. From September 1950 through September 1954, social security cash benefits were increased by 27 percent, whereas during the same period the Consumer Price Index increased by only 10 percent.

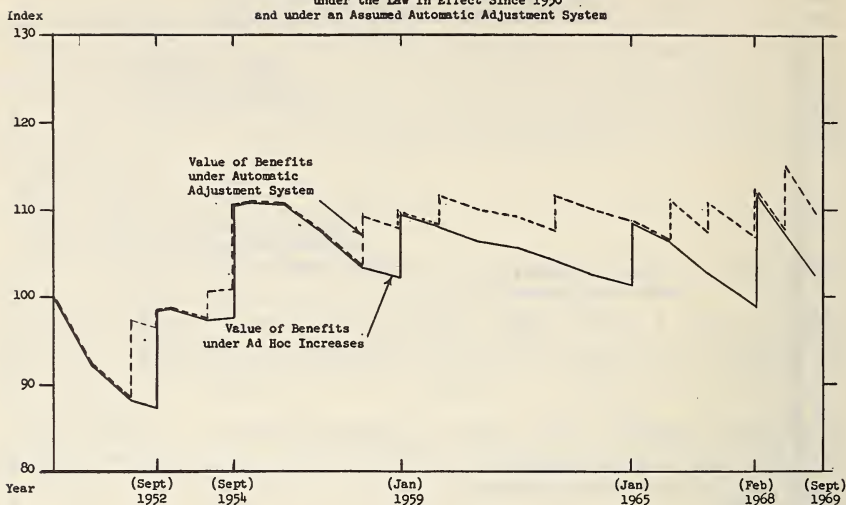
The chart shows also that when the value of Medicare benefits is added to the value of social security cash benefits, the overall improvement in general benefit levels as compared with increases in the cost of living is even greater.

The chart shows, therefore, that social security beneficiaries have done better under the *ad hoc* increases that have been enacted since 1950 more than they would have done if the Administration's proposal for automatic adjustment of benefits to increases in prices had been in effect beginning in 1950 and if no other changes in benefit levels had been made. But such a comparison assumes that if a system for automatically keeping benefits up to date with increases in prices had been in effect, no increases in general benefit levels beyond what was needed to maintain the purchasing power of benefits would have been made. If one assumes that not only would benefit levels have been kept up to date with increases in prices on a current basis through an automatic adjustment system, but also that the real improvements in benefit levels—that is, the excess of the actual increase over the amount of a cost-of-living increase—were also made, a different picture, as shown by the following chart, results.

¹ It is assumed that the Administration's proposal for automatic adjustment of benefits to prices was effective beginning in 1950.

² This value of Medicare is an average and will vary greatly from individual to individual, depending mainly upon whether the individual was receiving any help from Federal or State programs in meeting his health care costs prior to Medicare. It should be remembered that Medicare benefits are available only for people age 65 and over and that one-third of the 25 million social security beneficiaries are under age 65.

Decline in Real Value in Benefits Since 1950
under the Law in Effect Since 1950
and under an Assumed Automatic Adjustment System



The chart compares the real value of cash benefits over the years since 1950 under the *ad hoc* increases that were provided with what the real value would have been had there been in effect an automatic system for keeping benefits up to date with prices and had the real improvements in benefit levels that were made also been made. (For simplicity purposes only, the value of Medicare benefits has not been included on this chart.)

Mr. VANIK. Mr. Chairman, I just wanted to ask one question to follow up what your earlier question was directed to.

The CHAIRMAN. All right.

Mr. VANIK. Mr. Myers stated that we could have a 15-percent across-the-board increase without any increase in the base or the taxable rate. I would like to have a projection as to what it would cost in the schedule on an increase of base that would produce the revenue to bring about the other changes in the social security law, the improvements in the act that were recommended by the administration.

Mr. VENEMAN. Do you want that, Mr. Vanik, based upon the 15-percent increase?

Mr. VANIK. Yes, based upon the 15-percent increase. It was stated by Mr. Myers that we could have a 15-percent increase without increasing either the rate or base. He said, of course if we were going to do other things that are involved in the President's program, it creates some costs that are not contemplated. I would like to know what increase in the base and the schedule of increase of the base would be necessary in order to do both, to take care of all of the added costs of the changes in the program that the President has recommended.

Mr. VENEMAN. I think we have those figures here, Mr. Vanik. There is another factor that we have to keep in mind: the cash benefits fund is being allotted to funding all of these changes in the cash benefits plus a 15-percent benefit increase, as you have requested, you are definitely going to have an increase on the hospital insurance side.

Mr. VANIK. I like to fund the hospital insurance as a straight fund. I feel that when we put in the hospital program we felt that we were funding it separately. I don't think that ought to be involved. Do you

have the answer as to how much change would be necessary on the taxable base and on what schedule would it have to be changed, to do the things that the President has recommended and still provide a 15-percent increase?

Mr. VENEMAN. Is that based upon keeping the wage base the same and keeping the contribution schedule the same?

Mr. VANIK. No, I am talking about keeping the tax rate the same. What changes in the wage base would be necessary and when, at what point in order to carry the cost of the other elements of the President's recommendations?

Mr. MYERS. Keeping all the same benefit provisions except that there would be a 15-percent benefit increase.

Mr. VANIK. Having the benefit provisions that the President has recommended. In other words, what will it take to provide the added benefits that the President's program has called for without changing the tax rate, but by modifying the base? When and to what extent will we have to modify the base to generate the cost of the President's changes in the social security program?

Mr. MYERS. The answer to that question, which relates to substituting the 15 percent which you mention for the 10 percent in the President's proposal and to changing the earnings base to provide sufficient financing, is that it would take a \$15,000 earnings base instead of a \$9,000 earnings base.

Mr. VANIK. That is incredible. I can't understand that. It takes a \$15,000 wage base when?

Mr. MYERS. Starting comparable to the \$9,000 in 1972.

Mr. VANIK. In other words, starting in 1972 you would have to go to \$15,000.

Mr. MYERS. Yes, and then have it automatically adjusted thereafter. You could also do it in steps.

Mr. VANIK. You are not stretching out the collection. I am leaving the present law stand with respect to the scheduled tax rate. On top of that, you need this?

Mr. MYERS. I was using the tax rates in the President's proposal.

Mr. VANIK. No, I am talking about the present tax rates.

Mr. MYERS. Present tax rates?

Mr. VANIK. Present tax rates unchanged under existing law, a 15-percent increase and just add to that. How much more in dollars does it cost to take care of the changes, the modest changes that are recommended by the President?

Mr. MYERS. The changes that are recommended in the President's recommendation, besides the benefit increase, have a cost of about 0.4 percent of payroll.

Mr. VANIK. What does that come to in dollars?

Mr. MYERS. On an average basis, that is about \$1.6 billion a year—less in the early years, but more later.

Mr. VANIK. All right. In your judgment what would be necessary by way of increased base under existing law to provide the President's change in the programs plus a 15-percent increase in benefits?

Mr. MYERS. It would take a base of something like \$10,200 to \$10,800.

Mr. VANIK. \$10,200 to do that effective in 1972?

Mr. MYERS. Yes.

Mr. VANIK. All right.

Mrs. GRIFFITHS (presiding). Mr. Byrnes, you are recognized.

Mr. BYRNES. Mr. Chairman, I am going to be very brief.

Under the Social Security Act you have one group that gets a considerably higher increase in their benefits. I am talking about those people, the widows, who are drawing today on the basis 82½ percent. They will get that raised to 100 percent of the basic family, and then they will have a 10 percent on top of that.

As I calculate that, that comes to about a 33-percent increase.

Mr. BALL. That is about it, sir.

Mr. BYRNES. You have one chart here that showed the number of people involved.

Mr. BALL. 2.7 million on the rolls today, Mr. Byrnes.

Mr. BYRNES. That is 2,700,000?

Mr. BALL. Yes.

Mr. BYRNES. What I was particularly interested in, in view of the chairman's discussion of the relationship of this program to the people who are also on old age assistance today, is: do you find that of those who get both benefits, that a good share of them are widows?

I would guess that would constitute a high proportion of those people who were getting both benefits, the widows.

Mr. BALL. A very significant number are widows, and there would be a rather significant saving in old age assistance from this increase.

I believe an estimate has been made. I don't seem to have it right in front of me. We might supply that for the record, Mr. Byrnes, as to the savings.

(The information referred to follows:)

The annual savings in public assistance expenditures as a result of the provision increasing benefits for aged widows to 100 percent of the workers' basic benefit—the primary insurance amount—would be \$36 million, of which \$24 million would be the Federal share.

Mr. BYRNES. It seems to me that this change is a very meaningful one, and I congratulate you for recommending it. It seems to me that here is one of the instances where you have a real burden today. When one of the members of the household of an older couple dies, all of a sudden benefits drop all the way down from 150 percent to 82½ percent. I have the impression that probably these people then have had to apply for additional assistance from old-age assistance.

They probably were able to get by when the couple had the 150-percent payment, but that reduction automatically threw them in a category where they became welfare cases.

I would like to move in a little bit on the welfare area. I really did not get from the Secretary's statement this morning the correlation that you intend to develop between the family assistance program and your program of training for work and putting people to work. The real effect, it seems to me, is to develop further beyond what we tried to develop in a starting sense in the 1967 act—the movement of welfare people into the economic stream rather than staying in the welfare stream as a way of life.

The one thing that I am concerned about here is your timing, and the preparation that will be made, so that you do have the various work training programs and job availabilities for these people at the same time that the new benefit level goes in. I am very fearful that if the increasing benefit level that you are proposing goes in, while

the work training and child-care centers, and attempts to create job opportunities are something down the road, we will always be waiting to catch up, and never catch up, so that you will not have the direct relationship which I think is essential, and I gathered from the Secretary's statement was an integral part of this family assistance.

Mr. VENEMAN. It is almost the key part.

Mr. BYRNES. A key aspect, and the two would never come together, unless you are prepared to provide the job training, provide the day care, provide the jobs.

Now, give us a little bit about how that works, who will administer it.

I think there is some question here which has already been raised, that you are going to move the payment of the checks apparently over to the Social Security Administration. While I have introduced this bill for consideration, I have suggested to you that that bothers me no end, to get those who are administering the old-age and survivors insurance program into the welfare area. I think we should try to keep these two programs distinct, one being a social insurance program which should not get all tied in with welfare aspects.

But if you are going to have the checks paid over at old-age and survivors insurance, over in Baltimore at Bob Ball's shop, who is going to, and how are you going to, pull these people into the program to get them into the economic mainstream of self-sufficiency, or at least as great a self-sufficiency as they are capable of?

Mr. VENEMAN. Actually, Mr. Byrnes, we could do two things.

On the job-training aspect, Secretary Shultz will be here tomorrow. Mr. Rosow is in the audience, from the Department of Labor. As the Secretary indicated in his statement, the work training aspects would be primarily the responsibility of the Department of Labor.

As far as the Social Security Administration is concerned, they would not be involved in any of the administration as it relates to day-care or job training. They would be responsible only for the money payments.

There is also a provision in the act that would permit us to contract with the States to allow one check to come to the recipient, so that the supplemental payment made by the State could also be done through the Social Security Administration.

As far as the timing of the job training concept is concerned, it is linked to the present bill, so that the basic elements of it—the requirements for registration and so forth—would go into effect when the bill went into effect.

Mr. BYRNES. But you have to have more than that, if there is a law going into effect, because you have to have the facilities.

Mr. VENEMAN. The Manpower Act would go into effect ahead of time, presumably upon enactment. There would be several of the elements in that act.

I think that your committee in the 1967 amendments has really set the stage. We went through the trial period in the WIN program, and I think that program has set the mechanics up for a good share of what we are attempting to do in this particular measure.

The measure itself provides for about 150,000 training slots, and about 75,000 slots for the employed to upgrade.

Mr. BYRNES. 150,000 training slots?

Mr. VENEMAN. Yes.

Mr. BYRNES. What is your estimate then, on the number of people in the category of unemployed fathers who would be eligible under this program for family assistance?

Mr. VENEMAN. In those States where they do not now have unemployed fathers?

Mr. BYRNES. I want to know the total number that you will have in all States if this bill is enacted.

Mr. VENEMAN. In some States we already have it.

Mr. BYRNES. Because I would think that with almost 90 percent in that category, you ought to have the facilities and all of the beefing up that is necessary to take these people and put them into training or get them into jobs.

Mr. VENEMAN. Mr. Hawkins, do you have the figures?

Mr. BYRNES. If you talk about 150,000 slots for training, how many people are there just in this particular category, to say nothing of the women who will be eligible for family assistance?

I am just talking about the case where there is the male in the house.

Mr. HAWKINS. Which almost by definition would be a candidate for the training situation. There would be very few that would not.

Mr. BYRNES. That is right. I would think that at least 90 percent of them would. The other 10 percent are those who are physically disabled or need medical attention of some kind first.

Mr. HAWKINS. There are about 60,000 in the present States that have unemployed father programs. This will vary seasonally from 50,000 or 55,000 up to 70,000 or 75,000.

Mr. BYRNES. See if you cannot get Walter or somebody to put another microphone over there.

Mr. VENEMAN. Mr. Hawkins indicated there would probably be about 100,000 nationally in the unemployed parent group, if it were made mandatory, which the bill does provide.

Mr. HAWKINS. Whether mandatory or not, these would be eligible for FAP, and candidates for training.

Mr. BYRNES. All I am trying to find out is whether the slots that you are talking of for training are only a small percentage of this particular category.

You say it is more than this category, as I understand it.

Mr. HAWKINS. Yes.

Mr. VENEMAN. Mr. Byrnes, may I ask Mr. Jerry Rosow of the Department of Labor, who has the responsibility for these training slots, to comment on this question?

Mr. Rosow (Jerome M. Rosow, Assistant Secretary, Department of Labor). Thank you, Mr. Secretary.

With your permission, Mr. Byrnes, if I can respond to your question with regard to the males who would come into the training program under the new proposed law, they would be eligible and probably in our top priority category for training opportunities, and would not be limited only to the additional 150,000 slots, but would be eligible under the Manpower Training Act, and also eligible under our existing expansion of the WIN amendments that this committee passed in 1967. There would be three.

Mr. BYRNES. I am not sure I understand what you mean by "slots." If there are different kinds of slots, give me a breakdown of each category.

Mr. ROSOW. I would be pleased to do that.

With regard to the new proposal under family assistance, there are 150,000 additional training opportunities, or slots, which would be added as an increment above the WIN amendments, which are scheduled to, as you know, increase in terms of our capacity to handle them.

Now, we have enrollments up around 90,000 in that program, and it will continue to operate until, if, and when this law is enacted, when there would be an add-on of another 150,000, which we would visualize would be somewhere around 250,000 or 300,000 training opportunities at the time this new law is in effect. So we would have an incremental factor of about double the base.

Apart from that, under our existing manpower programs, where we have, inclusive of the WIN program, almost 1 million opportunities, since many of these fathers would qualify as disadvantaged, they could be eligible for training under those categories, as well.

If I may say it, not statistically, I am saying that there should be sufficient capacity for us under this program to deal with all of the fathers in terms of training opportunities.

Mrs. GRIFFITHS. Mr. Chairman, will the gentleman yield?

Mr. BYRNES. Certainly I yield.

Mrs. GRIFFITHS. Why are you giving the men the top priorities? Do you assume that women's children are less hungry?

Mr. VENEMAN. May I respond, just briefly?

Mrs. GRIFFITHS. I would be glad to hear it.

Mr. VENEMAN. Based upon the figures that Mr. Rosow gave us, I think that most of these additional training positions that would be available under this proposal would be for women.

If over half of the unemployed parent programs are now in States that have the WIN program in effect, they are undoubtedly filling up a good share of the 90,000 training slots that are under the WIN program, and many of the women are also filling those slots, so this, coupled with the day care, Mrs. Griffiths, would really place the emphasis on the women on the public assistance programs, because there would be 450,000 day care openings also in the bill.

Mrs. GRIFFITHS. But any new slots that are opened, are you saying they are going to men?

Mr. VENEMAN. No, I am saying the new ones would primarily go to women, because most of the trainable males now have training programs.

Mrs. GRIFFITHS. What is the top priority?

Mr. VENEMAN. The top priority?

Mrs. GRIFFITHS. That is what I am asking you. Why do you say that men get a top priority in any of these situations?

Mr. VENEMAN. I don't think we have placed a priority on sex.

Mrs. GRIFFITHS. That was his answer.

Mr. VENEMAN. No, I don't think so.

Mrs. GRIFFITHS. Yes, it was.

Mr. VENEMAN. I think the priorities would naturally fall to those that are most trainable—logically the easiest persons to train and get off public assistance.

Mrs. GRIFFITHS. Your answer is really different than his, because he said the top priority would go to unemployed fathers.

Mr. VENEMAN. But only for that reason—that they would be the easiest to be trained and get off the public assistance rolls.

Mrs. GRIFFITHS. Where did you get that idea, that men are easier to train?

Mr. VENEMAN. We are talking about the unemployed parent group.

Mrs. GRIFFITHS. Why do you think they are easier to train?

Mr. VENEMAN. Because they have been in the employment market, and they do not have the problems that the women are confronted with, without sufficient day-care centers.

We cannot ask—I think it is impractical to ask—many of the women that are now on our rolls, or will be on the rolls, to assume training slots, if we don't have the facilities to take care of the children.

Mrs. GRIFFITHS. That is a different answer than the fact that the men are more easily trainable. Thank you.

Mr. VENEMAN. We have another advocate.

The CHAIRMAN. You see why I wanted to be here when she asked the questions.

Mrs. GRIFFITHS. I just heard from somebody up here who points out that in several studies that have been completed it shows that the women are much more trainable than the men.

Mr. VENEMAN. I will concede, Mrs. Griffiths.

The CHAIRMAN. That is the wisest statement you have made.

Mr. BYRNES. Off the record.

(Discussion off the record.)

Mr. BYRNES. To go to these slots, you meant you have 90,000 now, and those are funded, are they not?

Mr. ROSOW. Yes, sir.

Mr. BYRNES. But the information I have on the AFDC work incentive program, and this comes from HEW, is that there are only 67,408 that are currently enrolled.

Mr. ROSOW. Yes, sir.

Mr. BYRNES. And as a percent of training spaces approved, that is only 59.6 percent.

Now, let me ask this: Does HEW feel that everybody who is now on AFDC and receiving payments who is capable of being trained for work is in one of these slots being trained?

Mr. VENEMAN. No, we do not feel that way at all. There are probably many who are trainable who are not there. But let us recognize, Mr. Byrnes, that this is a relatively new program, which is only in its second year.

Mr. ROSOW. It finished its first year in October.

Mr. VENEMAN. It is going into its second year.

Mr. BYRNES. There you get to the very point I am concerned about.

In 1967, we amended Federal law to require that AFDC recipients, if they are trainable and their home situation permits, be placed in training. I don't think you have done it.

You have made a start, but you must concede that there has been not a full attempt to completely implement our objectives?

Mr. VENEMAN. Just from what I have experienced, in looking at the program, Mr. Byrnes, we have found that it is much more effective

in some areas than others. Much of the reason for that has to do with administrative and organizational problems.

Mr. BYRNES. Right. I think your New York survey seemed to indicate that, did it not?

Mr. VENEMAN. That indicated it to a degree, although the survey was not directed as much to the work incentive programs as to some of the other features of the public assistance programs.

Mr. BYRNES. We do have evidence, do we not, that some of the people who are administering the AFDC programs today are not very enthusiastic about getting these people on to the training programs, even though there are training programs, even though there are training slots that are available and have been funded?

Mr. VENEMAN. I think you can say that there are those kinds of people in social welfare programs that have those kinds of attitude.

Conversely, we find situations where there are those in employment services that likewise have a reluctance to take a public assistance recipient.

I think the Manpower Training Act is a step in the direction of coordinating and consolidating a lot of these programs.

Mr. BYRNES. I agree with both of your statements, Mr. Secretary.

I think there has been a failure at two points. One is at the welfare worker level, the person who is looking after this family and administering the AFDC program. They have not been awfully enthusiastic in some cases and in some areas, about getting these people into training and good work and into jobs in the economic stream.

You have also some problems as far as the employment service focusing on these people as a real objective, and getting them into the job areas, or into the training programs.

But my point then is: What assurance do we have that these two factors are going to be improved when we move into even a higher level of payment under the family assistance program?

That is the assurance that I think I want, and I think that is the assurance the taxpayers want.

It is not just dollars, as has been suggested by the gentlelady from Michigan. I agree with her. I think in the past, and that is one of the reasons we are in a problem with our welfare program today, it has been a matter of handing out checks, rather than seeing what we can do to get these people into the degree of self-sufficiency that we could.

I think you have some fine formulas, but I have seen too much of the stuff that comes in theories, and then, if there is a little resistance here or there, "Well, what the heck. We will still pass out the check."

I am lecturing to you probably more than I am asking you a question, but I want to be reassured after this little lecture that maybe there is something here that you are going to focus in on this problem, that when you start removing even the payment of the check from the agency that is supposed to now pay the check, you also will look and see what the situation is in this household, and whether somebody is going to work. I wonder whether you have less pressure on getting these people into training.

Tell me how that is going to be improved, if this bill is enacted, over what we have today.

Mr. VENEMAN. Mr. Patricelli would like to comment.

Let me make one or two points. First of all, the mandatory requirements for registration for work and acceptance of job training, are written into the statute.

Secondly, we have increased the incentive.

Mr. BYRNES. That is written into the statute today.

Mr. VENEMAN. There is much more discretion in today's language, in the WIN program, than is in the family assistance program. The discretion that was in WIN is not in this particular bill.

Secondly, the incentive has been increased to \$60 instead of \$30 and to 50 percent retention of earnings, instead of one-third retention.

These are all incentives for people to get into training and/or employment.

Mr. Patricelli has been working on this particular element, and works as liaison between our Department and the other agencies, and I would like him to expand, with your consent.

Mr. BYRNES. Please do.

Mr. PATRICELLI. Mr. Byrnes, there are some features that we tried to develop to insure the administrative workability of this. Of course, no binding assurances can be given, but to the extent possible we tried to transfer to the work-oriented, employment-oriented Labor Department and its counterpart agencies in the field the judgments about whether or not a person can be asked to go to work, and whether or not a job is appropriate, or that kind of thing.

There is a very limited set, and rather carefully defined set, in section 447(b) of the act, of exemptions which the Secretary of HEW and the field organization will be getting into in terms of exemptions from registration.

But if someone is found to be able-bodied essentially, with only a few exceptions, he then is obliged to register, and is known to the employment service, he is on the rolls of the employment service, and in the mechanism of computer job matching—the consolidated mechanism proposed under the administration's separate Manpower Act. We hope that there will be a much more efficient procedure of linking him with a training opportunity or a job opportunity.

Mr. BYRNES. Frankly, in my judgment, this bill is going to rise and fall not on a hope. It is going to rise and fall on the question of whether there can be a conviction that you are really going to go through with it, and it is going to be effective.

Certainly to live today, these higher levels are not getting you up into any high blue yonder. I am not suggesting that at all. But when you move these up from where they are today, and ask the taxpayers to pay for it, and ask this young lady down the street to get up at 7 or 8 o'clock in the morning and work 8 hours a day, if she sees some other lady down the street who has two children, one 10 and the other 13, but she can sleep all day, and she probably has the kids doing some of the work around the house, she says, "Why should I be paying taxes so that Mable down the street can just draw a check?"

Mr. VENEMAN. I think that is the situation we have today.

Mr. BYRNES. You have to give assurance to the American people, that we are going to be just as concerned in focusing on that matter. Much more attention must be given to it than punching the computer so that you can write a check for \$1,600 or something a year for somebody.

Mr. Rosow. May I, with your permission, Mr. Byrnes, respond to your strong statements, which we endorse wholeheartedly, and on which we have been working very carefully over the past months, to design the proper language in the proposed legislation, and as there will be represented by Secretary Schultz tomorrow in his prepared statement, answers to these particular points.

If I can refer to the present situation which Mr. Patricelli alluded to under the present WIN amendments, there is a word, "appropriate," people who are appropriate are referred for work or training, and that word has been deleted from our proposed legislation in order to eliminate any ambiguity or wide discretion on the part of the welfare agency to exclude people from training.

As the President has said, and as we all feel on this side of the table, here, there is a strong work requirement in this program, and it is our intent to enforce that work requirement as much as possible in every case.

We are trying to learn from some of the good, and some of the bad, experiences we are having under the WIN program. We are trying to look at that right now, and have been looking at it very carefully, to see what we can do to build in better support to make the training successful, and to make the transition to work more quick and more meaningful and more lasting.

All of our attentions have been directed at the problems that you have cited.

Mr. BYRNES. Let me ask you this. I am pleased that there is that focus of attention. I just hope that if you are giving all of that attention, you can give it more effort.

One of the things that has been called to my attention—and how severe this is I am not acquainted with—is that there is a large problem as far as the training of some of these people, and their capacity to work, some of them even that have a skill. It concerns the problem of the alcoholic, which I put in the context of being a medical problem.

You will have other situations, I think, where medical attention is needed as a basis for a person even being able to use a skill he has, or to develop a skill, that has to be corrected first.

To what degree do we have a program here that looks to that, as a problem also, so that this welfare worker does not go in and say, "Well, this unemployed father is alcoholic, so, my goodness, there is nothing we can do about training him. He has a skill. He is a good carpenter, if he could get off the bottle, but we are lost."

That, to me, is also very wasteful of human dignity and manpower and everything else. And to what degree can we insist that this individual, as much as taking work training, be provided with and take whatever medical care we can provide to put him into shape for the other steps?

Mr. VENEMAN. Let me answer specifically, and then I will ask Miss Switzer to elaborate.

The bill also provides that if it is found that a person needs rehabilitation, he is to be referred to the Rehabilitation Services. But as far as alcoholism and other problems that are connected with it are concerned—such disciplines as getting to work on time, attitude changes that have to be made, the need to train some people, really, just to go

to work every day—there are a lot of problems in this teaching people just basic discipline, and what it means to hold a job.

But a good share of this, where you have medical problems or some other reasons, come under the Rehabilitation Service, and I think Miss Switzer can elaborate on that.

Miss SWITZER. You are familiar with our present program of rehabilitation, I know, because you have a good one in Wisconsin, and it has seemed to me throughout all of our discussions, in trying to come up with a new emphasis and focus on this problem, that the vocational rehabilitation agencies, the techniques, the facilities that are at their disposal, in almost every community will be an indispensable part of what can be provided to do just what you are saying.

Mr. BYRNES. This is all now on a voluntary basis. Now the person can go to rehabilitation if he so desires.

I don't think we even have written into the Aid to Dependent Children Act the same requirement for that as we have for taking work training, have we?

Miss SWITZER. We will not have anything against making that mandatory. I think it is not mandatory here in this section, but if you make it mandatory that a person will be penalized because he does not register for work or accept work, it seems to me it would be quite in order to say that if he will not accept rehabilitation training or medical treatment in order to make him available for work, that he should be made to do it.

Mr. BYRNES. That is what I was speaking to. I know that there are people who steer away from the idea of trying to compel anybody to do anything, but I think that there are some things that you do, not just because you are going to be giving them some money. It is because by giving them the money, you have, I suppose, a carrot or club to hold over their head to have them do some things that they should be doing for themselves, and which will be in their own best interests in the long run.

Miss SWITZER. I think the rehabilitation agencies have had a lot of experience in this, because they have had people who have been disabled and homebound for a long time. They have had the emotionally disturbed, the mentally retarded, that have had very little discipline in the simplest kind of things that have to do with going through a day at an occupation.

I think they have just begun to be used in relationship to the very hard core unemployed, but wherever they are being used, this is a very remarkable result that is very easy to document.

Mr. BYRNES. Am I right when I say that there are quite a number of cases, in the aid to dependent children category particularly, I think, where you do have possibly a male in the house, where the reason that the unemployment exists is because of alcoholism, or because of narcotics, or because of some factor that is treatable?

Miss SWITZER. There certainly is a large number. What proportion that would be of the total AFDC caseload I am not sure, but every year the vocational rehabilitation program does rehabilitate thousands of recipients of public welfare and public assistance, and of that number, a large number fall into this category.

Mr. BYRNES. In other words, I am not just picking out some little insignificant group.

Miss SWITZER. No, this is a very big problem, and I think that chronic unemployment, hopelessness and no opportunity to see a way out, aggravates this situation. And the longer it goes on, the more difficult it becomes to do anything about.

So that I think it would be incumbent upon the administration, and certainly it is something we have talked about and planned for, that when a person applies, wherever they apply for their family assistance payment, that there will be there the machinery to turn them in the right direction. Lots of people will apply that will not be eligible, and they, too, should have an opportunity to be given a chance at training and employment and rehabilitation.

I think a good deal of this will be discussed when our service amendments come up, and we have a chance to suggest alternate ways in which we might take hold of this.

Mr. BYRNES. I think we should have something. I wish between now and the time we get into executive session, which I suppose is going to be in a few weeks, that you can sit down and give us some details on this rehabilitation factor, and then what you are really going to do, and what your problems are that you can foresee. Tell us what you are really going to do, not just high hopes, but what you are going to insist be done as part of this program, as an integral part, so that we can see where we are going as far as that aspect of this program is concerned.

As I say, I think the whole program either rises or falls on how well that is done.

Mr. VENEMAN. I think we can certainly do that.

Mr. BYRNES. That is the hardest part, I recognize. The easiest part in the world is to get names and numbers and punch them into a computer and write out a check, except that is not the easiest part as far as the taxpayers are concerned, and it is not the best thing for the individual involved.

Mr. VENEMAN. Mr. Byrnes, I think that is what has been happening. I think that one of the greatest weaknesses of the present system is, of course, this fact that too much of the emphasis has been upon money payments.

Mr. BYRNES. That is why I am concerned, because we wrote it into the law back as far as at least 1961, that we wanted greater emphasis. The fact that you have 59 percent of your 90,000 slots filled probably shows that you are 50 percent on the way, and I understand a good percentage of those people end up in actual jobs. It shows that we are moving, but it is such a slow pace.

Mr. ROSOW. About 13,000 people who have gone through the WIN program have secured employment.

Mr. BYRNES. That does not mean anything, until you tell me how many were in the program. What percentage?

Mr. ROSOW. I have to get the figures, Mr. Byrnes. That is since the program's inception.

Mr. BYRNES. 13,000 is better than none, but I would also like to know how effective the program is in terms of the training effort, and what the success is in final results.

Mr. ROSOW. We are prepared to discuss that in more detail, and it will be covered at some length in Secretary Shultz's prepared remarks tomorrow.

Mr. BYRNES. I should save these questions, then, probably, more for tomorrow, except that I do worry about the correlation of this.

Mr. VENEMAN. Secretary Shultz, of course, will be talking to the Manpower Training Act and how it relates to the family assistance program, but the points you raise with regard to rehabilitation services involve the Department of Health, Education, and Welfare. There is no question about that. The social services aspect also involves HEW.

Mr. BYRNES. You see, that is another thing, and I am not suggesting there is any way around it, but it was bad enough in the past, when you almost had it all under one head. Now you are scattering it around.

Mr. VENEMAN. We did not have it under one head. That was the problem. We did not have it under one head. We had MDTA, WIN, OEO, work training projects scattered all over.

Mr. BYRNES. But, theoretically, you at least had a welfare agency in the State that had the responsibility.

Mr. VENEMAN. Telling who the people are, but Labor put the program together.

Mr. BYRNES. To make sure that they got to the proper program.

Now, as I gather it, all of a sudden somebody sends Bob Ball a name and an address and a dollar amount, and that individual starts drawing checks.

Mr. VENEMAN. It is not quite that simple, Mr. Byrnes.

Mr. BYRNES. I just worry about that a little bit.

Mr. CORMAN. Mr. Byrnes, will you yield for one question at this point?

Mr. BYRNES. Certainly.

Mr. CORMAN. I wonder if you have any figures as to how many children in the AFDC program there are because of alcoholism of one or both of their parents. Would you have statistics on that, or would they be available?

Mr. VENEMAN. Mr. Hawkins.

Mr. HAWKINS. About 17 percent of the present load are there because of incapacity. We cannot break out of that how many of them are alcoholic, or how many are narcotics-involved. We have no recent data which would indicate exactly what kinds of incapacities.

We do know that probably something like half of that group are very severely incapacitated. Others are in the zone that should be trainable.

Mr. CORMAN. The other question I would like to ask is if you have had any experience in rehabilitating an alcoholic, and the cost per capita.

Miss SWITZER. There has been a good deal of experience, really, in rehabilitating alcoholics. It is not really as easy as rehabilitating a paraplegic, in a way, but for the last 8 or 10 years now the State rehabilitation agencies have invested a good deal in various ways of trying to conquer the problem, and they have had, I would say, fair success, not spectacular, but fair.

There is an increasing interest, an increasing investment, and increasing facilities, such as institutional settings, half-way houses, Alcoholics Anonymous in various forms, and usually the selections of the people to be rehabilitated are people that have some work experience—though not always. They are fairly young. They are not adolescents, but they are not old, either.

But I don't know how many last year. I can easily find out. I would say probably 8,000 or 10,000.

Mr. BYRNES. Would the gentleman yield?

Mr. CORMAN. Before I conclude, I will yield back the time.

What I am asking you is, do you have any estimate as to how much you invest in an alcoholic to rehabilitate him, because I think it is a tremendously important point.

I believe that we are talking about 8 or 10 percent of the children on AFDC who are there because their fathers are alcoholics.

Miss SWITZER. I think it varies very greatly, from a small amount, which may be just the investment of the counselor's time, to an institutional setting, which might take 6 or 9 months and come up to, say, \$8,000 to \$10,000 a year, and from one extreme to the other.

I could certainly tell you what they spend in the public rehabilitation program.

Mr. CORMAN. It would be helpful if you could tell us what you spend, and what degree of success you have had.

Miss SWITZER. I can do that.

(The information referred to follows:)

COSTS AND ACTUAL REHABILITATIONS OF ALCOHOLICS UNDER THE VOCATIONAL REHABILITATION PROGRAM

The average cost for rehabilitation per alcoholic for services purchased is \$349. This includes services purchased, such as diagnostic services, medication; for some, care for a limited length of time in a facility and occasionally, training. It does not include the counselor's time for counseling, guidance or placement. If the counselor's time is included the average cost is \$700. Relatively few alcoholics require training. Most have worked and have a marketable skill. Occasionally refresher courses are needed.

About one-third of the cases served are closed rehabilitated. Followup studies made over a 2- and 3-year period have shown that of those rehabilitated through vocational rehabilitation four-fifths remained employed at the end of this period.

Mr. VENEMAN. We can have someone in the Health Service develop some figures from their alcoholism program, which would probably answer some of the questions you raised.

Mr. BYRNES. I yield to Mr. Conable.

Mr. CONABLE. I wonder if there is any increase in the statistics because of the use of drugs, and if these people are not less rehabilitable than alcoholics.

Do you have recent enough figures to get credible statistics on this?

Miss SWITZER. I don't think we have any accurate figures, but again I think the Public Health Service would have the best we have.

Mr. VENEMAN. We will see if we can find those.

(The information referred to follows:)

REHABILITATION OF ALCOHOLICS AND NARCOTIC ADDICTS

ALCOHOLISM

Assuming that two years is a reasonable length of time for the satisfactory treatment and rehabilitation of most alcoholics the total cost for a treatment and rehabilitation program is estimated to be \$3,500.

NARCOTIC ADDICTION

There is growing optimism based on the early experience of the National Institute of Mental Health community mental health center and aftercare programs for treatment and rehabilitation of narcotic addicts, that addicts can be

successfully rehabilitated. Using a variety of treatment techniques including group and individual therapy, narcotic antagonists, self-help programs and intensive rehabilitation programs, National Institute of Mental Health supported centers are reporting encouraging results in their initial year of operation. Since most addicts are young, poor and ill-educated, rehabilitation takes longer for most addicts. Based upon preliminary data, we estimate that the cost of treatment and rehabilitation of a narcotic addict by one of these community centers would be \$5,100.

Miss SWITZER. I think in the experience of the Rehabilitation Service, which probably deals more directly with narcotics addicts, there has been again only fair success, and after a tremendous investment of time and effort.

On the other hand, there are some spectacular success stories. I know when we had our conference last June on the disabled and disadvantaged, that one of the most moving exhibits was the director of a program in New York City who himself was a rehabilitated addict from Lexington, and who had a whole program of ex-addicts helping others on the street.

So you do hear of remarkable incidents, but I think that it is far more difficult than alcoholism, far more difficult.

Mr. CONABLE. Thank you.

Mr. BYRNES. Mr. Secretary, another area that I think concerns a lot of people in the administration of welfare today, and you will have the same problem under the new program, is the situation of the runaway father, the efforts to insist on an appropriate contribution to the family he has left behind.

Do you have any program or recommendation that will take care of that problem better than it has been taken care of in the past, or is being taken care of today?

Mr. VENEMAN. Actually, you are absolutely correct that AFDC started off as a widow's program, primarily, and in 1940 only about 30 percent of the caseload were families with absent fathers. Now about 70 percent of the caseload are families with absent fathers.

But it is part of the provisions for child support that the father is required to pay for the maintenance of his family. We have not changed that.

I don't know how it is done in every State. I am familiar with how it happens in California, where I was involved. Where a law enforcement or district attorney's office is responsible, it has been a very effective program.

Charlie, can you speak to this on a more general basis?

Mr. HAWKINS. I think Mr. Meyers probably has more data about it than anyone we have here.

Mr. VENEMAN. Mr. Joseph Meyers, Assistant to the Commissioner.

Mr. BYRNES. I don't need him, if you have not made any changes.

Mr. VENEMAN. We have not made any changes.

Mr. BYRNES. And if you have not developed any program of change, then I am also going to suggest to you that you might spend the next couple of weeks putting some people to look at that.

Mr. VENEMAN. It takes legal action, primarily, Mr. Byrnes, and that is difficult.

Mr. BYRNES. But all these people do now is cross a State line, and you have no procedure of getting them.

Mr. VENEMAN. We did.

Mr. BYRNES. But now you have a different situation than you had before. Let us recognize that. You have a basis here now of a Federal payment. It is not just matching funds, like it was before. You are moving now into an area of a Federal payment being made.

The question, it seems to me, is whether or not it now becomes under this kind of a plan, a situation where you can have subjugated rights of some kind to go after this father on a Federal basis.

Mr. VENEMAN. I think it would be simpler.

Mr. BYRNES. Because that is the problem the States have in enforcing parental responsibility. All the guy has to do is go across the State line, and even if they know where he is, they are lost.

Mr. VENEMAN. I don't think that is true, Mr. Byrnes. I think most States subscribe to the reciprocal child support laws.

Mr. BYRNES. I know it is true in too many cases, because I have taken it up with our Welfare Department, and it becomes a nuisance so far as many of the district attorneys are concerned.

Mr. VANIK. Would the gentleman yield?

Mr. BYRNES. I yield.

Mr. VANIK. I am glad the gentleman from Wisconsin is pursuing this question.

What is the aggregate number of run-away fathers that we have now? Do we have a table giving the number we have at the present time?

Mr. VENEMAN. Approximately 70 percent of the families on the AFDC program are families with absent fathers. As to how many are run-away, or divorced, or absent for other reasons, I don't know.

Mr. HAWKINS. The last figure I saw was about 20 percent, where there was actual desertion, which is what we are talking about here. There are also divorces in which support payments are not being made.

There has been a concerted effort made, and much more use of social security account numbers and that sort of thing than formerly. I think the status of identifying these, and doing what can be done, has moved forward a good deal in the past 2 or 3 years.

Now, in a very large part of them, there is simply no resource to tap. On the other hand, in some families there is a significant amount of income that represents payments from an absent parent.

Mr. VANIK. Mr. Chairman, I was wondering in line with this same line of reasoning, why we could not possibly work out a system in which we would just credit against a worker's account such payments as are made by the Federal Government for the support of minors which he has a legal obligation to support.

We do that in other programs. If the Government has a claim against someone, we reduce a great many compensatory programs.

Why should be not put a provision in the law? Such payments as are made to someone for the support of someone to whom there is a legal obligation of support—why should that not offset against future payments of social security?

Mr. VENEMAN. We would be perfectly willing to study that proposal, Mr. Vanik.

Mr. BYRNES. Let us not get the Old Age and Survivors Insurance System mixed up into the welfare.

Mr. VENEMAN. We are not going to involve the Social Security Administration.

Mr. BYRNES. I think there should be some procedure whereby parental responsibility is insisted on to offset so far as we can the cost to the Government to make these payments.

What is the penalty for refusal to work, if they are found capable of working, or of training and working and a suitable job is found?

Mr. VENEMAN. The removal of that person from any payment. That person would not be entitled to payment.

Mr. BYRNES. How do you calculate that in terms of your family assistance? You bring fathers in the home, under the program. You have a father in this home. He just refuses to work or take training?

Mr. VENEMAN. It would be \$300 a year, and if there are State supplemental payment added, they would be involved.

Am I correct?

Mr. PATRICELLI. That is correct. The father ceases to be includable as a member of the family, and therefore the family benefit is scaled back to a three-person from a four-person, and that is \$300 per year per person, so that that is the minimum loss.

The State supplemental is also terminated as to that person, and finally there is a mandatory protective payment feature, as the committee had initiated in 1967 for that family.

Mr. BYRNES. That is right. We have had that since 1967.

What has your experience been, as far as reduced payments, or the use of this device?

Miss SWITZER. I think we have had almost no reports on it.

Mr. HAWKINS. All indications are that it has been very, very small. We don't have statistics on it, I think.

Miss SWITZER. Part of the reason is that the WIN program is just really gaining momentum, and it would be as a result of referrals to the Department of Labor, and refusal to accept what was available there that we would have this.

Mr. BYRNES. We have 2 years, though, and I wonder.

Miss SWITZER. But the WIN program has not really been going full tilt that long.

Mr. BYRNES. I am not interested so much, frankly, in statistics. It would be nice if we had them.

I would just like to know generally what the experience is. Have you asked for any reports, general reports, from the States as to the extent to which they have tried to comply with this law, what their experience has been with the mandatory requirement for work training and taking work?

Miss SWITZER. Frankly, Mr. Byrnes, I think we have been more interested, and I think the States have been more interested, in the affirmative push to get the people that the welfare departments feel are appropriate for training, into training.

I think that there has been more thought and energy put into that phase of it, because actually, until you get a person referred to the proper labor program, WIN or whatever, and you have a demonstration that they are really recalcitrant about it, and will not accept it, you have not gotten to the point where you invoke the sanction, and we have not.

Mr. BYRNES. I think if this program has been in even for a year, and the States had been doing what we intended in 1967, namely, an examination of this family, and you had a referral of those people who were capable of work to training—

Miss SWITZER. That is right.

Mr. BYRNES. (continuing). They would have some experience, then, with the question of dropouts on the training. They would have some ability to tell us how this was working.

And the reason this is important is that the heart of the new program is this same thing that we started in 1967. It would be helpful to us to determine whether this program is going to work, by knowing what has been done in the intervening couple of years.

Mr. VENEMAN. Mr. Rosow from the Department of Labor has indicated that approximately 200 have been disqualified.

None of these have been women.

But I think there are a couple of factors here that we ought to take into consideration. A good many of those persons who are filling the WIN slots now volunteered for job training off the public assistance rolls. Of those that were mandated to take job training, for the most part they have accepted it. I think that this is probably the basic reason that such a small number have refused to work after they have been referred.

Mr. BYRNES. I wonder also whether there has not been a question of how many really have been mandated to take training. If they did not evidence much interest, was further effort abandoned? Where would they put their effort?

Miss SWITZER. That would be human.

Mr. BYRNES. Which would be rather human.

Miss SWITZER. Because I think again the pressure is to try to take advantage of the labor opportunities and training opportunities that are available, and if you have a surplus of people that are willing and volunteering, you naturally are going to give them every chance. So it would only be human nature if you had a feeling that someone else was not quite so enthusiastic, that you would give him the second choice.

Mr. BYRNES. But let me repeat again—

Miss SWITZER. But I think your point is well taken.

Mr. BYRNES. If we are only going to limit our efforts to those that are responsive, the program will fall.

Miss SWITZER. That is right. There is no question about that.

Mr. VENEMAN. A lot will depend upon attitudes both of the employment service and those involved in the family assistance program.

Mr. BYRNES. I would like to know how you are going to work this out, as to what kind of people is going to make these mandatory referrals, and who then is going to pass on whether this person is doing what the law mandates in order to be eligible for the benefits that are hereby created.

Mr. VENEMAN. The employment service, Mr. Patricelli indicates.

Miss SWITZER. We would hope that people would have some of the characteristics of the rehabilitation counselor, who has through the years been able to motivate the people.

You have to do more than just refer, when a person has not been working for many years. You have to give them some inspiration and some hope at the end of the road.

Mr. BYRNES. I don't know who we talked to on the basis of who refers them.

Let us take the case where you have a woman, to take care of Mrs. Griffiths' situation, which concerns her, and it concerns me, too. This woman is thoroughly capable of being trained. She does not have a child situation in the household that prevents her.

Mr. VENEMAN. We are going to take care of her kids, anyway.

Mr. BYRNES. Her children are in 7th or 8th grade, or high school, or something like that, so that is not the heart of her problem.

Who is going to say whether that household, that situation, is such that, "Mrs. Jones, you have to go down and register at the unemployment service"? Who is going to do that?

Mr. PATRICELLI. If I may walk you through this procedure as we have tried to piece it out, Mr. Byrnes, this woman will come to the local agencies administering the family assistance program.

Mr. BYRNES. No, she is going to the Social Security office and apply for her check, first, if I have any knowledge of how this thing works.

Mr. PATRICELLI. It may be a Social Security office. It may be in some situations that the Social Security Administration will have contracted with a State agency to do the initial intake, there is that possibility.

If she goes to the payments office first, the intake officer there does an initial screening. He has the six rather narrowly defined categories against which he matches her, as to whether or not she has to register, and in the case you describe, she clearly has to register.

We have to then get a comeback card from the Employment Service saying that she has been down there, and she is registered, before she can enter family assistance on a sustained basis, before she gets her benefits. She may get a 1-month payment, but she will not get payments after a month if we have not got that comeback card indicating that she has been down, registered, and has had a full employment interview, and her skills, whatever they may be, are on file at the Employment Service.

Then the Employment Service, and this was rather deliberate, has her on its rolls, and we know the degree of short-fall in the Employment Service effort if it cannot move these people into jobs and training.

They are the ones who will make the decision as to whether a particular individual will be offered a training opportunity or a job opportunity. If that person refuses at that point, we then hear from the Employment Service that refusal has been made, and the cutoff occurs.

Mr. BYRNES. Who has supervision over these people? The States?

Mr. PATRICELLI. Under the new Manpower Training Act—

Mr. BYRNES. The Labor Department, or HEW? Who are we going to point the finger at if this thing does not work the way you are telling us it is working? Who do we call in here and say, "You are not doing your job," or do you just say, "I am sorry. We better get Shultz in tomorrow, because that is the Labor Department"? Then he says, "No, that isn't us. That is somebody else."

Mr. PATRICELLI. I think it is clear in the case that it is the Labor Department that has a rather explicit responsibility to put in training or employment those people who are registered.

Mr. BYRNES. And who also sends a card back to the Social Security Administration and say, "This person has been offered a job and has refused it"?

Mr. PATRICELLI. There is no discretion on our part. That is the end of it. That person has a hearing with the Labor Department people as to whether the refusal was based on any kind of acceptable ground, but that whole judgmental procedure is in the Labor Department and its counterpart agencies at the State level, and that in turn is the subject of the separate act that we referred to, the Manpower Training Act, which is trying to consolidate all of the various manpower programs into one system, so that the whole 1 million slots that Mr. Rosow referred to are available to this.

Mr. BYRNES. What if we pass this bill, and the Education and Labor Committee or the House does not pass the manpower training bill. Where are we?

Mr. PATRICELLI. We still have the funding for the 150,000 new slots, and the funding under the WIN program. All of that is still in place.

We think the Manpower Act would further improve the ability of the Federal Government or the States to meet the requirements, but it can go forward without that.

Mr. BYRNES. That is all I have right now.

The CHAIRMAN. Mr. Corman.

Mr. CORMAN. Thank you, Mr. Chairman.

Mr. Secretary, I had a visit from some of your former colleagues the other day, and we talked about revenue sharing. The first thing they suggested, and it was not new to me, was that if the Federal Government assumed the total responsibility for public assistance, State and local governments would then be able to apply their available resources to their other public needs. They felt that this would be a probable solution to their problems.

Mr. VENEMAN. I can almost name the former colleague, Mr. Corman.

Mr. CORMAN. As I say, it was not the first time I had heard that solution as a possibility. It was once suggested in the Los Angeles City Council, when I was on the council.

What is the attitude of the administration as to any pitfalls in that suggestion?

Mr. VENEMAN. Actually, I think the administration's position is set forth quite clearly in the family assistance plan, which suggests essentially that there are areas for the division of labor in the public assistance programs; that the States do in fact have a responsibility, and that the most effective way to make some of these elements and components work is to have State administration and State responsibility, in order to get people involved into the manpower programs for public assistance recipients.

I think the overall question of whether or not the Federal Government should in fact take over all of public assistance is one that is, for various reasons, somewhat out of the question at this particular point, primarily for fiscal reasons. I don't think that the Federal Government would be in a posture at this point to assume the entire burden financially of taking over the public assistance programs.

Mr. CORMAN. I indicated that I was not sure it would be a part of this bill.

Mr. VENEMAN. I personally feel that there are a lot of steps in between.

Mr. CORMAN. You are moving further in that direction with this bill. I recognize that, but the Secretary's testimony this morning

seemed to indicate a feeling that if the States had a financial stake in making the thing work, minimizing its costs, they would then better administer it. Is that just about what it boils down to?

Mr. VENEMAN. I think that is one factor, and a significant factor.

Actually, we see a lot of situations now where the States will shift their responsibility for administration over to some other unit of government, some local unit.

It seems to me that step 1, before we start talking about Federal administration, is that maybe some of the States ought to start talking about State administration.

Mr. CORMAN. Just for the record, I am not talking about Federal administration. I am talking about Federal funding. I am not totally persuaded that the State must have that financial stake.

Apparently one of the problems in administration has been the ability of the caseworkers, or whoever is responsible, to get people off the rolls. I think they have some insurmountable problems that we are closing our eyes to, but we will get to that in a minute.

If we adopt this, I am assuming we will have as a Federal standard that an unemployed father in the home will not disqualify a family.

Mr. VENEMAN. That is correct.

The resources standard would be a Federal standard—\$1,500 limitation on assets, plus exemptions for the house, personal effects, furniture, those types of items.

Also, of course, another key element is the national floor, which is probably one of the four or five main features of the plan. You do have the Federal Government assuming the responsibility for a minimum.

Mr. CORMAN. Now, on the resources question, is that Federal standard a minimum, or a maximum, or an absolute figure?

Mr. VENEMAN. That would be an absolute figure.

Mr. CORMAN. The States could not alter it up or down?

Mr. VENEMAN. That is correct.

Mr. CORMAN. What was the total cost of public assistance for the latest available year, what is the total cost now of public assistance, and of that figure, how much is borne by the Federal Government and how much by the States?

Mr. VENEMAN. Yes.

Mr. Hawkins would have those figures, Mr. Corman.

Mr. CORMAN. Also, if we adopt the present proposal, give us the cost of the first year of operation, what the gross amount would be, and what portion would be paid by the Federal Government, and what amount by the States.

I realize these figures cannot be precise, but I am sure you have some good estimates.

Mr. HAWKINS. Mr. Corman, in calendar 1968, in federally aided programs, a total of \$9,272 million was expended on payments. This includes medicaid. Of that amount, \$5,135 million was Federal, which was 55.4 percent; \$3,098 million was State, which was 33.4 percent; \$1,039 million was local, or 11.2 percent.

Mr. CORMAN. Thank you very much.

What would be the estimated cost of the present proposals, and what would be the breakdown of the contribution from the three levels of government. I am not sure you would have the breakdown between

State and local, but just a comparison of Federal and non-Federal would do.

Mr. PATRICELLI. The total cost in calendar year 1968, which we used as our base for estimating was \$4.4 billion, as was suggested in the Secretary's testimony. That is the net cost, the new cost to the Federal Government.

Of that, approximately \$3 billion is for the family assistance benefit portion, and that would be on top of, if you will, \$1.5 billion in old Federal money, for a total.

Mr. CORMAN. Let us start over.

Do you have a figure of the total cost per year under this proposal, using the year 1968 or the year 1967, if you had anticipated that?

If you don't have it now, it would be fine to supply it for the record.

Mr. PATRICELLI. \$5.9 billion is essentially the figure you want.

Mr. CORMAN. I want to know how much we are spending now, how much we are going to spend, how much the Federal Government is going to contribute, and how much the States and/or local governments must come up with.

Of course, it would be more accurate if we used the 1968 statistics.

Mr. HAWKINS. On the 1968 base, there is \$4.4 billion here in additional Federal expenditure. To that, the Federal contribution for 1968 to the aid to families with dependent children program, which is the major element in here, is another \$1.5 billion, which gives us your \$5.9 billion.

The effect on the adult programs is included in the \$4.4 billion.

Mr. CORMAN. That is the Federal contribution?

Mr. HAWKINS. On the AFDC program for calendar 1968.

Mr. CORMAN. You are telling me that is what we spent?

Mr. HAWKINS. Right.

Mr. CORMAN. What I am asking you is, assuming we adopt this package as it is proposed, how much will we spend in the first year, and of that total amount, how much would be Federal contribution?

Mr. VENEMAN. We would have to break out what the State savings would be in the low-income States. The other would be 90 percent.

We could have those figures tomorrow, I am sure.

Mr. CORMAN. Any time for the record, but it would be helpful to us, I believe.

(The information was not available at time of printing.)

Mr. CORMAN. You have some statistics on page 9 of the Secretary's statement. I am sure they are accurate, and they are useful. They indicate that AFDC recipients—those who are helped—are 50 percent non-white, while the working poor—those who are excluded—are 70 percent white.

Let me ask you, in the total work force in this country, what percentage of those who are white work and what proportion of these represent the working poor under this formula. What percentage are non-white and what proportion of these fall within the category of the working poor?

Could we have those figures for the record, if you don't have them now?

Mr. VENEMAN. We will develop those for you. Perhaps Secretary Shultz would have those figures. They may be in his testimony.

(The information requested follows:)

Of the working poor included under the FAP proposal, 31 percent are non-white and 69 percent are white.

Mr. CORMAN. I would like to say that I have no quarrel at all with the approach of helping the working poor. It seems to me that in the long run this is going to be the greatest incentive of all to getting people off the welfare rolls gradually. I don't want my questions to indicate a lack of enthusiasm for that part of the program.

Mr. VENEMAN. I respect that.

Mr. CORMAN. I think by the time it becomes effective it is going to save money in the long run, but initially, how many more people are going to be brought on to the welfare rolls as a result of that change?

Mr. VENEMAN. I think the estimate is somewhere around 12 million people, Mr. Corman.

Mr. CORMAN. Twelve million?

Mr. VENEMAN. That would include the children that would be involved in these working poor families.

Mr. CORMAN. Yes.

On pages 19 and 20 of the Secretary's statement eight States are listed as now having payments less than the new Federal minimum.

Do I understand correctly that even those States which are now below the Federal minimum will be required to pay 10 percent of that Federal minimum?

Mr. VENEMAN. No, they would come up to the Federal minimum, but they would be required to expend at least 50 percent of what they are presently expending for public assistance, so that they would not get off the hook entirely.

Mr. CORMAN. Do you mean that they are not going to be spending less than they are spending now, and their people will be getting more?

Mr. VENEMAN. They would be spending less, but they would be required to spend at least 50 percent of what they are expending now. They could spend down to 50 percent less.

You see, the large States are going to save at least 10 percent over the existing program. The lowest payment States would save up to 50 percent.

Mr. CORMAN. In that respect, the eight States that are listed are probably going to be saving nearer that 50 percent.

Mr. VENEMAN. That is correct.

If we had not built that provision in, Mr. Corman, the lower-payment States would have practically been out of welfare, because for the most part some of those States were under the Federal minimum both in the adult categories and in the children's programs.

This bill would require them to continue to expend at least 50 percent for these programs. That is for cash assistance. A good share will go into the adult categories, because with the \$90 requirement, the first \$50 is Federal money. Of the next \$15, 50 percent is State money, and of the balance, from \$65 to \$90, that would be 25 percent Federal and 75 percent State.

So that just to maintain that level, most of those States would be required to expend their 50 percent.

Mr. CORMAN. Is the 50 percent, 50 percent of the total dollars that they were spending for welfare, or it is 50 percent of the individual welfare case?

Mr. VENEMAN. Fifty percent of the total dollars that the State was expending for welfare.

Mr. HAWKINS. Because of the different formula, even with the increase to \$90, most States would get less Federal funds, and have less State expenditure on their adult program.

Mr. VENEMAN. That would only expend part of the 50 percent, so that means either their adult or children's program would be higher than the national minimum.

Mr. HAWKINS. Those three would be up to it, and the State would have some say.

Mr. CORMAN. I am missing what the gentleman is saying. Would you repeat, Mr. Secretary?

Mr. HAWKINS. Under the formulas involved, Mr. Corman, the States would in general gain on their adult categories. Even when they had to bring them up to this higher level, they would have less expenditure. But a part of this 50 percent they would certainly have to expend in their adult category.

Mr. CORMAN. In other words, you would look at the total number of dollars, for instance, that the State of Alabama spent last year on public assistance and say that they must spend at least half of that in the next year.

Now, when we write in the working poor——

Mr. VENEMAN. I think we have to clarify one point.

This is not a fixed base. This is a moving base. The bill says that the States must spend half of what they would have been spending had the present program stayed in effect, so that base is going to move upwards.

Mr. CORMAN. I see.

When we bring into it the working poor, I take it that in those States where the expenditures have been the least, they are going to be the areas where there will be the greatest number of new people coming on to the welfare rolls.

Now, how does that 50 percent work as to those new people?

Mr. VENEMAN. It does not apply. Money paid to those would be Federal dollars.

Mr. CORMAN. The new people would be assisted with Federal dollars?

Mr. VENEMAN. Excuse me.

Mr. CORMAN. The 50 percent base would be as if we had not passed this?

Mr. VENEMAN. That is correct.

But even the higher payment States are not required to make supplemental payments to this new group of working poor. That group would be subject primarily to the \$1,600 minimum, plus their earnings, plus their disregards, that are all built into the program.

Mr. CORMAN. The total amount of the \$1,600, or whatever portion they are to get, is all Federal money?

Mr. VENEMAN. That is correct.

Mr. CORMAN. I see.

Getting to the problem of rehabilitation, it seems to me that there are both tremendous fiscal and social reasons to rehabilitate people so that they can get back to work. It also seems to me that we have never taken a realistic approach as to the per capita cost of rehabilitat-

ing the people who are the most difficult to rehabilitate, and who, I suspect, make up a substantial part of the people who live on public assistance.

Looking at the Job Corps experiment, the people involved in that program were really not the most difficult to rehabilitate because they were young, and many of them apparently had a capacity to learn rather quickly, but they involved an investment of some \$6,000 or \$7,000 per individual.

The decision was made that this program should not be continued. Was the decision made on the basis that the degree of success was too low, or was it that the per capita investment was too high, or was there some other reason for terminating that program?

Mr. VENEMAN. Since I was not involved in that decision, I would like to yield to Mr. Rosow, from the Department of Labor.

Mr. Rosow. With apologies, Mr. Corman, could you repeat the question for me?

Mr. CORMAN. I was discussing this very, very real problem of rehabilitating people who, for a wide range of reasons, do not have the capacity to support themselves. Referring to the Job Corps, because, as I understand it, the Job Corps really was designed for people who are probably the easiest to rehabilitate; they were young people who were in tolerably good physical condition and apparently had a pretty good capacity to learn, but they involved a per capita investment of about \$6,000 or \$7,000 per year, and it was concluded that we ought not to continue that investment.

I have wondered if the decision was made because the return on the investment was too low, or if the per capita investment was too high, or if there was another reason for the decision.

Mr. Rosow. Well, I might say at the outset that the program in its entirety, of course, has not been terminated. It has been restructured and basically integrated with the other manpower programs.

There has been an emphasis on the residential character of the program in terms of the large number of people who are in areas remote from the cities, and this factor was one of the big problems in the high dropout and the failure of the people to make it from the Job Corps into the job market.

Some of the new centers that are being opened are residential centers in urban areas, and are tied into the manpower programs.

Mr. CORMAN. What will be the per capita investment in those centers?

Mr. Rosow. Well, I could provide that. It will be much lower than the present per capita investment.

(The information requested follows:)

At this time, it is still too early to determine the unit cost of operating the new centers. Contracts for their operation are still in the process of being negotiated. In addition, it will take several months of operating before steady state efficiencies will be achieved. With regard to the old centers, where precise comparison can be made as to cost changes, contracts negotiated by the Department of Labor all show significant reductions in the man-year cost from the prior year, despite steadily increasing price levels.

	Fiscal year 1969 ¹	Fiscal year 1970 ²
Federal conservation centers.....	5,140	4,710
State conservation centers.....	3,657	2,593
Men's urban centers.....	5,479	4,800
Women's urban centers.....	5,454	5,254

¹ Actual man-year operating cost.

² Estimated man-year cost based upon current contracts.

Mr. Rosow. Part of the reason the per capita costs were so high in the Job Corps had to do, as you have implied, Mr. Corman, with capital plant and equipment, rather than the costs of training and care for the students themselves. It is the writing of that investment across the total enrollment which made the figure grossly high. It was not the cost that was really applied to training.

Those costs were really treated almost on the very short term. They were not amortized over a very long period at all, so that it blew the costs up very high.

I might say further that part of the problem with these young men was a social and family problem, and the rehabilitation problems were unique, and that is why we had, in the early days of that program, only about a 17-percent success rate in placing these people into jobs, which is one of the reasons that the Nixon administration wanted to revise the program.

But it is still a going program and is now being reengineered, but I would suspect, without having the figures here, but they could be brought tomorrow, that the per capita costs would come down as a result of this restructuring.

Mr. CORMAN. Did I understand that you have provided some residential care? Is it going to be urban residential for these students?

Mr. Rosow. About one-third of the program will still be oriented toward conservation type programs, and will be in those areas of the country, but the new centers and the restructuring, as you have stated, will be more urban located and tied into our other manpower programs, and not take the young men away from the city into remote locations, where isolation was one of the problems that was contributing.

Mr. CORMAN. I cannot quite understand, though. In the urban facility, are you going to take them out of the home?

Mr. Rosow. They will be residential facilities, but they will be urban, so that they will still have part of the urban life.

Mr. CORMAN. Are these urban residential facilities going to cost less per capita than the Army camps those boys were kept in?

Mr. Rosow. Yes, sir; because they will only be dormitory type facilities, and will not have all of the other structure that was needed in the other types.

I can bring in some of the per capita figures, with your permission.

Mr. CORMAN. It will be interesting, because as I say, I think that probably this is the easiest group to rehabilitate.

When we start talking about rehabilitating alcoholics, attempting to train people who have subnormal IQ's, I think we are probably

talking about a tremendous per capita investment. From what I have heard in the Congress, I have a feeling that the principal reason the Job Corps had so little support was because of the rather substantial per capita cost.

So, although we talk so much, and I think rightly, about trying to get people into jobs, I really wonder if we have any concept of how much it costs to rehabilitate most of those people into potential employees whom the average competitive businessman would take the risk of hiring.

If you have any estimates as to how much it is going to cost to rehabilitate various kinds of people, I think such information would be useful to us.

(For the information referred to see p. 223.)

Mr. ROSOW. From the standpoint of the Department of Labor, our training programs, with the exception of the Job Corps, which deals with the hard core type of more mature youth, basically do not have a rehabilitation character.

I know from my own experience in industry that the problems of rehabilitating the alcoholic in managerial and executive positions is both costly and difficult.

I don't believe that I would be in a position to say that our Department is planning to do this rehabilitation program. We would rely on HEW in their vocational rehab programs, and I would have to defer that question to the Secretary.

Mr. VENEMAN. Which I will refer to Miss Switzer.

Miss SWITZER. I have already told him that any investment in that type of case that is successful pays off in the long run, in my opinion.

Mr. VENEMAN. I would concur.

We keep talking about the need to break the welfare cycle, and all the other objectives that we all hope to attain. As long as you have some kind of physical or mental or environmental or attitude problem, you are just not going to break that cycle.

That is why I am very enthused, really, about the whole concept of the job training and day care, as it applies to a different type of environment for part of the day for many of those children that are involved in these homes.

Mr. CORMAN. Yes. I think that holds great hope for working mothers. I suspect that there will be jobs for them.

I was pleased that you did not present us a closed-end proposal for funding this program.

Attempting somehow to motivate people to work by cutting off funds as was done with the AFDC freeze, is not a rational approach. We just have to accept the fact that we are not going to let children go hungry, and that there are some almost insurmountable problems in a great number of these cases in trying to get their parents on to our payrolls.

Mr. VENEMAN. I think that there are probably one or two things, Mr. Corman, and I appreciate you raising that point.

Perhaps to set the record straight, and clarify some impressions that may have been left this morning with regard to the open-end aspect of the day care provisions, this matter has not been fully determined.

The bill provides for an open ended authorization—\$386 million, as I recall—but as far as the comparison of this program with the prob-

lem of runaway costs is concerned, the proposal will probably make it easier to know what the Federal Government outlays are going to be than does the present system, where we match 50 percent for the high States. No matter how high they go on their grants payments, we are still in there for 50 percent.

Now, with the limitation, if a State goes above the minimum of \$90 for adult categories, it is at State expense, so that we do probably have a better criterion for determining what the Federal obligation is going to be under this procedure.

You in Congress have a better opportunity to make the decisions as to how much and when the base should be raised than under the old system, which was really 54 programs throughout the United States, each with its own standard. That was a lot tougher open-ended appropriation to try to estimate or justify.

Mr. CORMAN. But it seems to me that what has led to the "mushrooming" of the problem is not quite so much the number of dollars per recipient, but the expending number of recipients. I think in our system it is going to have to remain open ended. We cannot let somebody decide tomorrow to permit 10 percent of the children of this Nation to be hungry.

I hope in that respect we always take a realistic view of the effect of freezes.

We mentioned this earlier, but on the social security automatic increases I must say you are attuned to the mood of Congress. We tried last year to give up fixing our own salaries. We were so pleased with how this worked out that this year we gave up fixing the salary scale for postmen, and I take it now we are giving up fixing benefits for social security recipients.

But we do have the problem, as the chairman mentioned, about who fixes tax rates.

I wondered if you would consider the possibility of getting some sort of congressional confirmation of those increases in the wage base.

Mr. BALL. Mr. Corman, just preliminary to that, I might say that on the benefit side—the cost-of-living increase—which is a similar procedure to what is already in the law for Federal employees, and workmen's compensation for Federal employees, I don't think any problem has been raised about the precedents there.

It was entirely on the side of the wage base, which is both a benefit base and a tax or contribution base.

I suppose partly it depends on whether you look at this program as primarily a closed social insurance-type operation, as they do largely abroad, where there are about 10 systems that already have these automatic features, or if you look at it as a straight tax program. I have not been able to think of any precedents in the tax area. Your point, though, was if complete automaticity seems like a significant barrier, whether you could follow the precedent of coming up with a decision that would then have to be confirmed by the Congress.

Mr. CORMAN. An observation or period for veto.

Mr. BALL. That would certainly be a possibility.

Mr. CORMAN. In other words, if Congress failed to approve the increase in the tax base, the Department would then not be permitted to increase the benefit. There would then be some incentive on the part of Congress to adopt the increased wage base.

Just one other question on social security benefits.

Your proposal is merely to take care of inflation. It seems to me our history indicates that the standard of living in this country has risen every decade. As a result, people in general are living better. If we anticipate that social security is to keep beneficiaries in some relative position of a living standard with the rest of the Nation, we have to do more than just to take care of the effects of inflation itself.

Is not this a reasonable consideration?

Mr. BALL. Mr. Corman, I would like to make two points in that connection.

One is that the provision itself, insofar as it has an automatic increase in the earnings base, does do more than just keep up with the cost of living.

For all those whose wages go beyond the present \$7,800 or \$9,000 in the law, there is an actual reflection in their benefits of higher earnings. So there is some of that feature there.

But I would say basically the thought in this proposal is to protect against inflation, but not to close the door to ad hoc changes that might be made from time to time as the Congress felt it was desirable to do so, and as financial resources were available.

It is not at all unlikely that out of the present contribution rates as scheduled, or the President's proposals, applied to an increasing payroll with a rising earnings base—that out of that kind of financing there will be produced more than enough money to just keep up to date with the cost of living.

So that it would be possible on an ad hoc basis to decide what to do.

We did not think it was wise to propose benefit increases that were automatic beyond the cost of living, because that would tend to foreclose other possible improvements in the program.

Mr. CORMAN. Just one more thing.

Back to the child care centers, as I remember the testimony, the cost of full day care was estimated at \$1,600 per capita per year. Is that correct?

Mr. VENEMAN. Right.

Mr. CORMAN. And the partial day care, the care for the child of the working mother before and after school, was \$400?

Mr. VENEMAN. Right.

Mr. CORMAN. What are we going to do about the physical facilities in which to take care of these children? Where are they going to come from?

Mr. VENEMAN. The bill provides for authority to use these funds, a portion of these funds, for renovation of facilities.

I will let Mr. Patricelli answer that.

Mr. PATRICELLI. The bill does provide for use of the funds for renovation and alteration of facilities.

The case comes along quite often, as you know, whereby a State licensing requirement or health code or what-not prevents the establishment of a center on simple physical grounds. We did not include new construction.

Mr. VANIK. How about rental?

Mr. PATRICELLI. Yes, funds can be used to rent.

Mr. VENEMAN. And you could use the funds to contract, I think, with a nonprofit agency.

Mr. CORMAN. Of that \$1,600 per child, how much of that do you anticipate must be spent for the physical plant itself, whether it is going to be renting a good facility or rehabilitating one, or whatsoever?

That seems to be a very low figure for taking care of these youngsters, comparing it, for instance, with the cost of keeping a child in public school.

Mr. VENEMAN. Mr. Sugarman, the Acting Director of the Office of Child Development, is here, Mr. Corman.

Mr. SUGARMAN. The figure of \$1,600, Mr. Chairman and Mr. Corman, includes about 8 percent for facilities rental. It does not include money for renovation. That is included in the President's budget estimate of \$386 million.

There is about \$26 million above the cost of actual operations that will cover renovation and training and technical assistance.

The 8 percent is based on a fair degree of operating experience that we now have through the WIN program, and through the Headstart program.

Mr. CORMAN. What do you anticipate in the way of the size of a typical metropolitan day care center? How many children will be involved?

Mr. SUGARMAN. We think from a program point of view that a good center runs somewhere between 60 and 120 children, but it really depends on what kind of population distribution you have. Oftentimes in an area with intensive concentrations of poverty families, you may have as many as 250 or 300 children in a geographically compact area.

Mr. CORMAN. Do you have any criteria as to distances involved in transporting a child to and from the center? In other words, how much of a problem is that going to be for the Government and for the mother?

Mr. SUGARMAN. Well, there is a considerable debate as to whether we should try to locate centers close to the place of residence, or close to the place of employment.

In the case of this kind of a program, where we really don't know where people will be finally employed, I guess we ought to establish the centers close to home, and I would say that ideally the child should not have to be transported for more than 30 minutes in one direction, but you have to modify that often, in a rural area, particularly.

Mr. CORMAN. Mr. Chairman, I will stop now, because the bells are ringing. I hope I might have a chance to ask a question or two of the Secretary.

The CHAIRMAN. You will. Mr. Conable?

Mr. CONABLE. Thank you, Mr. Chairman. I apologize for asking any questions at all at this hour. I don't have any speeches anyway. I would just like to get some ball park figures in my head at the beginning of these hearings. I find that is usually helpful if you have something you can hang on to. I would like to ask Mr. Hawkins first of all, this question.

As I recall, we were told in 1967 that in 1957 there were 2½ million people on aid to families with dependent children, 5 million in 1967 and that we would pass 6 million in 1969. I am wondering if you can bring us up to date on what has happened since 1967 relative to this prediction.

Mr. HAWKINS. In June 1967 the total number of persons receiving aid, both children and mothers or other family members, was just

under 5 million—4,977,000. As of June 1969, 2 years later, it was 6,558,000.

Mr. CONABLE. So we have had an accelerating trend beyond what you anticipated at that time?

Mr. HAWKINS. That is right. We were apparently in the beginning during that summer of 1967, in a rather rapid acceleration. The year 1967 increase was almost three times the average of recent prior years.

Mr. CONABLE. And, as I recall, you told us that this bore no apparent relation to the unemployment rate, that if the unemployment rate went up certainly this might increase the number of people on aid to families with dependent children, but a declining employment rate was no guarantee that the number of people on AFDC would not go up also.

Mr. HAWKINS. That has certainly been the recent experience.

Mr. CONABLE. Have you come to any further conclusions about the reasons for this lack of relationship? It is primarily because we have had a rather better organized urban campaign for the purpose of bringing these benefits to people who simply didn't know they were available previously?

Mr. HAWKINS. That has certainly been an element in it. There has been much more organization and awareness, probably some change in attitude toward accepting benefits. There has been substantial migration from rural into urban areas where families have been poorly equipped to compete in the local labor markets, where there was no father present.

As pointed out earlier, something like 70 percent of all cases and probably a higher percentage than that of new ones, have no father present in the home.

Mr. CONABLE. Knowing more about the reasons for this than you did 2 years ago, do you have projections as to where we are going to be if we make no changes 2 years from now?

Mr. HAWKINS. I believe there is a projection in the Secretary's statement, is of an increase of probably another 50 to 60 percent in recipients by 1975 and approximate doubling of costs over the present?

Mr. CONABLE. And to the 6½ million that are now in the AFDC program, the President's proposals would add an additional 12 million, some of whom, of course, would participate only marginally because they would be working poor making substantially above the \$1,600 level. Is that a correct statement?

Mr. HAWKINS. These would be intact families where the breadwinner was working essentially full time, yes.

Mr. CONABLE. Now, as I recall in 1967 the old age assistance was actually declining in numbers?

Mr. HAWKINS. That is right and much more so as a percentage.

Mr. CONABLE. Has that decline been reversed to any extent by the increasing cost of living since that period of time or does it continue to decline?

Mr. HAWKINS. The figure for June 1969 is 2,036,000, which is about 30,000 less than it was 2 years earlier. It is slightly higher—17,000 higher—than it was a year ago.

Mr. CONABLE. That does bear some relationship to the level of prosperity and certainly some relationship to the social security.

Mr. HAWKINS. Very clearly.

Mr. CONABLE. Aid to blind and disabled has not declined, has it, but has remained fairly constant, as a percent of the population. Has there been any change in that since 1967?

Mr. HAWKINS. Aid to the blind has declined from 83,000 in 1967 to 80,000 now. It has been approximately constant for the last year, within 200 or 300 recipients. In the disabled there has been an increase from 615,000 in 1967 to 755,000 in 1969.

Mr. CONABLE. Is there any particular reason for that? Like changing court interpretations or such things as that?

Mr. HAWKINS. I suspect it is more related to the aging of the population.

Mr. VENEMAN. Have there been any redefinitions of the disabled? Have we included any other people in the last few years?

Mr. HAWKINS. Very few.

Mr. CONABLE. Thank you, Mr. Hawkins. I would like to ask also in the area of the modification of the retirement test. I suppose Bob Myers is the guy to tell me about this. Can you give me a rule of thumb? I have kind of forgotten what the cost of this is. If you raise the ceiling by \$100, what is the impact, as a percent of payroll? As I recall there were roughly 800,000 people that would be affected by a rise in the ceiling. In one of the charts presented to us today, you stated that the modification of the retirement test would bring in an additional 300,000 people. Can you give me a rule of thumb on the cost of that?

This is a very popular item with people who work over 65. They are very anxious to have the ceiling raised, of course, and they rarely think of it in terms of the cost. That is one of our obligations, I suppose, if we are going to balance the various things that can be done with the available resources. So can you give me a rule of thumb for what a raise of \$100 would have, giving it in cost or percent of payroll or some way that I can understand easily?

Mr. MYERS. Mr. Conable, as you realize, it is not a strictly linear relationship. A \$100 increase at the bottom of the range means more cost than later on. Specifically, for each \$100 that it is increased, there is a cost of about 0.05 percent of taxable payroll, which in terms of dollars is about \$200 million per year.

Mr. CONABLE. \$200 million?

Mr. MYERS. That is the cost for raising the exempt amount—for example, going from, say, \$1,800 to \$1,900 as the annual exempt amount.

Mr. CONABLE. And, of course, other than \$100 at a different wage level as you say. It is not a linear advancement.

Mr. MYERS. In the range where it seems most feasible, going from the proposed \$1,800 up for at least a short interval of time, that 0.05 percent is probably a reliable figure.

Mr. CONABLE. I would like to ask the Secretary a question also. In the 1967 act we did authorize experimental projects to study the effects of cost reduction incentives on hospital costs and I understand there have been a couple of such studies made. I wonder if we are going to have available to us the results of such studies.

I understand also that there has been very little done actually in terms of the amount that could have been done and I wonder if there is some reason why we haven't had more pilot projects of this sort when hospital costs are such an aggravated part of the rising cost of living.

Mr. VENEMAN. I don't know what the results of the tests are. Mr. Hess is here and I am sure that he can expound on that, but I couldn't agree more that not enough has been done. We have attempted to make some modifications this year to try to control some of the rising medical costs that occurred in both title 18 and title 19, but those modifications did not direct themselves specifically to the experimental programs we have requested additional money for.

Mr. CONABLE. In the administration bill, you requested additional money for that, but have we used the money available?

Mr. BALL. Just before Mr. Hess describes the experiments that are underway—and none of them have been in effect long enough to have a report for you—I would like to say that we have worked very, very hard at getting experiments going in this area. There are several that seem to me to hold considerable promise. But as I indicated this morning, in the chart presentation I made, we find that one very significant barrier is that under present law, each provider in an area comes in only on a completely voluntary basis. In setting up a demonstration it is quite hard to get a whole group, so that you can compare things and have a true demonstration. We do have one, for instance, in Connecticut, where all the hospitals are participating. And one authority we are asking for is that if the great majority of institutions in an area want to try out a reimbursement experiment—as much as 80 percent, say—then we would be allowed to go ahead, although anyone who thought he was really injured by it would have a right to an appeal and have a hearing before the Secretary.

The other thing is that we found a limitation also in these experiments in that we are, of course, limited to the specific coverage that is in the present law. We feel that if we could extend the coverage for experimental purposes—say, to preventive factors—that might have a good effect.

But Mr. Hess, I believe, would be prepared to give you some report on the experiments we have started and what they are like, if you would like to hear that.

Mr. CONABLE. Well, I don't know that we want to take the time for it now. I am glad to know that there is some information available. I am disappointed to hear you say it is not completed and therefore it won't be anything on which we can count.

Mr. BALL. There is no experiment that has gone so long that we could draw a firm conclusion about it.

Mr. CONABLE. So that we can't really have much hope for the immediate future anyway for putting into the law any device that will maintain the quality of medical care and hospital care and still provide some incentives for keeping costs down. It is still going to have to be on a cost plus basis.

Mr. HESS. Mr. Conable, I think there is this hope: that is, the negotiations and the attempts we have made in the last two years to develop suitable experiments have indicated quite a number of imaginative areas where—I think with a little bit of further authority, and the pressure that has come with the passage of time upon all of our providers, and the concern for costs that is now being expressed by provider associations and others—we will be able to engage in a series of demonstrations and experiments that will be much more widely based.

For example, we are asking for authority to negotiate on an area-wide basis some actual changes in reimbursement methods where the providers would be more or less at risk.

Mr. CONABLE. Reimbursed, for instance, on the basis of the average cost in the area or something of that sort?

Mr. HESS. Yes, or on the basis of an all-inclusive rate, or of fixed negotiated rates which would hold for a year or two. The element that has been lacking, as Mr. Ball indicated, is the motivation that would cause a provider to change whose complete option is always to take full cost. The element that has been lacking is the ability to negotiate a fixed situation and make them stick to it for 2 years.

Mr. CONABLE. I see. You are satisfied with the authority included in the administration bill?

Mr. HESS. We are satisfied that the authority we are asking for now will allow us to do a very good number of things that everybody has agreed would be worth trying.

Mr. CONABLE. All right. Coming back to day care just briefly, I get the impression frequently that we don't tailor our programs to the real needs that people have. In the day care area for the same children that are going to be taken care of, we have school programs and Head-start programs. I am impressed by some of the private day care centers up in our area that seem to be able to operate considerably more cheaply than a public day care center might be able to operate, primarily because the guidelines for the public centers are so complicated and so elaborate. I wonder if we don't always provide in things of this sort for the most aggravated need—provide highly skilled people where sometimes highly skilled people are not needed—but subprofessional types.

I find this also in the area of the nursing homes, the extended care facilities where frequently our greatest need is custodial rather than a high degree of medical care. We run the costs up very substantially by lacking the flexibility to take care of the actual need that is involved.

I wonder if you would care to comment on that, Mr. Switzer, or Mr. Secretary.

Miss SWITZER. I agree with you very much that there tends to be when you formalize and put under licensure practices and other ways of trying to set standards, rigidities that make it very difficult to meet existing situations.

I am sure that all of us would agree that while we want to make a day care program, if it is a formalized program, as constructive as possible for the children, because this is one way of offsetting what doesn't exist at home oftentimes, this can be given by much less professionalized people than some of the experts, I think, have demanded in the past.

Mr. Sugarman and I have often talked about this and I think we feel that what is needed really is a comprehensive authority which this legislation would give us to develop day care programs geared to what is the community needs.

Some communities need them attached to schools, some attached to work shops, some free standing and some just with families, and I think it has to be very flexible and extremely practical.

Mr. CONABLE. Do you have any comments about the extended care, too, Mr. Secretary.

Mr. VENEMAN. I think the Secretary has made his position very clear. In fact, many of us in the Department have indicated that we feel that one of the weaknesses that we have in providing extended care as well as other medical services is the rigidity of many of the licensing laws and restrictions of one or another of the programs that we have going now. For example, a resource that I think should be tapped and could be tapped is the returning Vietnam war veterans who have been trained in medical work in the services.

We have a project going in Seattle at the present time where these young men are coming back, being trained to go into health facilities. I think it is essential that we place more emphasis on the lower cost paramedical-type employees who can provide much of the care in extended care facilities that does not require the types of restrictive qualifications they now indicate are necessary.

Mr. CONABLE. Is Mr. Ball satisfied with the certification program that is going on for extended care facilities? I realize that you disagree with my consensus from correspondence we have had. We still have at least some people stacked up in hospitals waiting to get into extended care facilities in our area.

Mr. BALL. Mr. Conable, I think we have hold here of a very difficult problem if we are talking about extended care in the medicare program, as distinct from a general situation as far as institutions are concerned.

In medicare, you will remember, the committee and the Congress adopted the view that the kind of care that they wanted compensated under the medicare program was really high-level medical service and not custodial care. Custodial care is specifically excluded from the law. The idea was that you would cover a new type of care that hadn't existed on a large scale before and that would be quite similar to what people might ordinarily have had in the last few days of a hospital stay—that you could move them over to a lower-cost institution even though they still needed continuous nursing care, and were not able to move into a custodial situation. It is true that in some parts of the country there are not adequate numbers of facilities at the high level that is covered. Furthermore, the quite strict decisions that we are making about the level of care that is required before we can compensate under medicare may in some instances result in continued hospitalization because there may not be a bed in a covered lower cost facility.

We are giving some thought to the question of whether or not it would be desirable to include under the medicare program a level of care that was somewhat lower than present law allows to be covered. I think we are interpreting the present law in the strict terms that the Congress had in mind in setting up this benefit, but it does raise these problems that you have pointed out, and it is one of the areas that we will be specifically calling to the attention of the Advisory Council that was appointed last May under the terms of the Social Security Act. They will be looking at all parts of the program, and this is one area that I hope they will give special attention to.

Mr. CONABLE. But you don't have any recommendations ready on this?

Mr. BALL. No, we do not.

Mr. CONABLE. So inevitably we will continue to have to give the very highest degree of care under medicare?

Mr. BALL. Yes, in this extended care benefit, until there is amendment to the law.

Mr. CONABLE. That is all, Mr. Chairman, thank you.

Mr. VANIK. Mr. Chairman, I would like to ask a few more questions.

The CHAIRMAN. Go right ahead.

Mr. VANIK. If you have the time.

The CHAIRMAN. I understand the House will vote around 6 o'clock.

Mr. VANIK. I would like to ask some questions about the old age and survivors trust fund, for example. Mr. Commissioner, you are the only trustee present.

Mr. BALL. I am the secretary of the Board of Trustees, Mr. Vanik. The three trustees are the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health, Education, and Welfare. I am the secretary.

Mr. VANIK. How often did the Board of Trustees meet this year?

Mr. BALL. They have met once this year, Mr. Vanik. The law requires a once a year meeting. It is my intention, as soon as I can arrange it, to have the new set of trustees meet before the close of this year.

Mr. VANIK. When did that meeting take place this year?

Mr. BALL. I think it was in January, Mr. Vanik.

Mr. VANIK. Were all the trustees present at that time?

Mr. BALL. Yes they were.

Mr. VANIK. Are there minutes kept of the trustees' meetings?

Mr. BALL. Yes there are, Mr. Vanik.

Mr. VANIK. Are they available by any chance to the Congress?

Mr. BALL. I know of no reason not to make them available.

Mr. VANIK. As to securities that are held in the trust funds as there is some turnover, or there should be, do you feel that a meeting once a year is sufficient to provide for the most prudent turnover of and watchful eye that must be made on this tremendous investment that will soon total \$75 billion?

Mr. BALL. The law specifically gives the investment authority to the managing trustee, the Secretary of the Treasury.

Mr. VANIK. He makes all the decisions?

Mr. BALL. The other trustees advise on fundamental policy, but as far as actual investment decisions are concerned, that is a specific delegation in the law to the Secretary of the Treasury.

Mr. VANIK. So it is up to the Secretary of the Treasury who also is the fiscal agent for the United States to make all of the decisions relating to the kind of investments that should be made out of the fund.

The other trustees don't have anything to say about that?

Mr. BALL. Not specifically. They can set policy.

Mr. VANIK. I don't remember having seen that in the law. Is this the way it works?

Mr. BALL. Yes; I will be glad to get the section for you. But I don't want, Mr. Vanik, for the record to stand as if the other trustees were powerless. They are charged with the responsibility of policymaking on investment. I meant that they don't make the individual decisions on whether to go into the open market, say, to buy at a particular time or whether to go into special issues and that type of thing.

Mr. VANIK. Is it possible, or do you have the power as Secretary of the trustees, to make those minutes available to the Congress?

Mr. BALL. I would be glad to do so.

Mr. VANIK. My concern is this: That as I know a trustee's responsibility in ordinary situations, the trustee has the responsibility of providing security for the corpus and also following the prudent investment rule to be sure that everything that is done creates a maximum return to the fund or to the trust.

Now, if other trustees don't have the power to guide the nature of investments in a way that they could produce the maximum amount of revenue, I don't know what residual power there would be for the trustees.

Mr. BALL. They could set restrictions on the managing trustee and set basic policy on investment. But let me say this—

Mr. VANIK. The basic policy is to get the most you can with the maximum security. Isn't that policy? What more is there?

Mr. BALL. Remember, too, Mr. Vanik, that we are talking here about investments that the law is quite specific about. They can only be in Federal obligations that are guaranteed as to principal and interest.

Mr. VANIK. But that would include notes, it would include Treasury paper of every kind, any obligation of the U.S. Government.

Mr. BALL. And then the other point I wanted to make is that the great bulk of the investments are in special issues to the trust fund where the interest rate is set by law to be the yield on all of the obligations of the Federal Government that have more than 4 years to run, so that the general situation is that these funds are quite automatically invested in an obligation where the law defines the rate of interest and the remaining decisions really—

Mr. VANIK. The law requires that they should be more than 5 years; is that right?

Mr. BALL. No; the law requires that the interest rate on the special obligations be the same rate as the average of all outstanding long-term obligations that the Federal Government has in the general market, you see.

That is to take out of the hands of the trustees the setting of interest rates. It is automatic setting on the basis—

Mr. VANIK. Regardless of what the bond says it pays into the Treasury, the average rate on everything?

Mr. BALL. The coupon rate that attaches to a new special investment is the average of all the yields on those that have over 4 years to run. That is the coupon rate. But the trustees have the authority to establish the length of the obligation—how long an obligation will last before it becomes due—and that has been set up on a very careful schedule.

Mr. VANIK. You mean the trustees of the social security fund tell the Treasury Department which issues the security, the terms under which the security is issued?

Mr. BALL. I am saying that they have relatively limited authority in that the interest rate on the obligation is determined mathematically by the yields on the outstanding long-term obligations to the general public.

Mr. VANIK. Let's talk for example about, say the 5¾-percent note of November, 8 years from now. If that is the obligation that is

printed on the instrument, does the social security fund get something different than what is printed on that instrument?

Mr. BALL. No; it will get exactly what is printed on the instrument. I am not sure I have been clear.

Mr. VANIK. I am trying to figure out this average rate.

Mr. BALL. Let me try again. What is printed on the obligation, if it is a special obligation, is arrived at by taking all of the outstanding obligations that are due or callable more than 4 years from now—all the obligations of the Federal Government that are due or callable more than 4 years from now—figuring the yield on them and arriving at an average yield, and that is what is printed on this new investment for the trust fund.

Mr. VANIK. It is a special certificate, a special document printed by Treasury and then sold to the fund?

Mr. BALL. Yes. They can also go into the market, you understand.

Mr. VANIK. I understand. Are the bonds redeemable at "par?"

Mr. BALL. Par.

Mr. VANIK. Then why not get hold of that paper and turn it over tomorrow for some of that 8 per cent that is floating around? In the agreement between Treasury and the trustees, and mind you, the trustees, have a solemn obligation to do everything they can to get everything they can out of the fund, if you have the power to turn those bonds over for par value because of your previous considerations to the Treasury and the way they were marketed and the way they were picked up, why can't you just increase tremendously the interest yield to Treasury simply by saying "Look, here are the bonds. I want par. Now we want to take this money and invest in 8 percent paper, \$7.7 billion worth sold to the general public about 3 weeks ago.

Mr. BALL. Mr. Vanik, I think the clear intent of the law governing these investments is to have the yields turn out to be as close as you can make them to what would happen in the general market, and if you did what you are suggesting, you wouldn't be taking any of the risk on the downside. The trustees have set up a procedure—

Mr. VANIK. The fund has already taken the risk on the downside because over the years the fund has collected over the past many years, the fund has had these low yield securities in them and have already taken an awful lot of loss. I don't know what this fund has lost, the beneficiaries, because of this policy of investment. If I were to do that, I would be removed as a trustee. You wouldn't have to remove me. I would walk out.

Mr. BALL. I think, Mr. Vanik, this procedure is really exactly what happens in the private concern. They were investing in two and a half's, three's, and three and a half's 5 years ago also. When they come due they convert. If they sell them before then, they sell them at a discount, not par.

Mr. VANIK. Well, they sold them at a discount and bought them at the new market price and got a nice tax loss which means they don't pay any income tax. That is a different situation. It seems to me that if the trustees have the power to demand par value on this investment, that they would be almost duty bound to turn them in and get new paper at the higher rate of interest.

Mr. BALL. If that were so, the trust fund would be treated much more generously than you could handle any private operation. We

would be protected against any loss and we would always be moving up with higher rates and getting rid of old issues without any loss because of changes in the market.

Mr. VANIK. What is the average yield then? I figured it. I just took the total income.

Mr. BALL. I think it is a little under 5 percent today; isn't it?

Mr. VANIK. I took the figures that were in the report of the trustees and I divided the income for 1969 into the amount of the fund and it came to 3.7 percent.

Mr. BALL. No, no. We will get the figure right here, but I believe it is slightly under 5 on the yield on all the funds together. Of course, our new investments—

Mr. VANIK. But that doesn't mean anything, the new investments.

Mr. BALL. I am saying that the average on the existing investments is somewhat under 5 percent if you take all the funds. I will get you the exact figure in a minute. I was saying that you might be interested to know that the new investments are $6\frac{3}{4}$ percent.

Mr. VANIK. We had some at 8. Did you get some of the 8-percent paper?

Mr. BALL. I don't know that they moved into the market on that—

Mr. VANIK. It is a little late now. There will be a premium on it.

Mr. BALL (continuing). On instrumentalities—

Mr. VANIK. I thought the social security trust fund got some of the 8-percent paper.

Mr. BALL. It is possible. I don't know.

Mr. MYERS. Mr. Vanik, for the largest fund, that is the old-age and survivors insurance trust fund, the average yield of the total investments as of December 31, 1968, was 3.98 percent.

Mr. VANIK. 3.98?

Mr. MYERS. Yes. The disability insurance trust fund had a rate of 4.64 percent, and the rates of the hospital insurance trust fund and the supplementary medical insurance trust fund were well over 5 percent, because they are new funds, and so they had invested their money lately, during the high interest period. All of those averages would be higher today.

Mr. VANIK. Well, could I, Mr. Trustee—Mr. Secretary, as a member of this fund or could I as a beneficiary file an action in Federal court and compel the trustees to get me par value on those bonds that you have that the Treasury owes you par value on?

Mr. BALL. I don't think I am competent to answer that.

Mr. VANIK. I was just wondering what rights the beneficiaries have in the fund.

Mr. BALL. This isn't an answer to that question. If one of the members of the General Counsel's Office is in the room perhaps he could respond. But I would like to point out to you that there are specific requirements that the Congress took in 1967 asking that this new Advisory Council that is set up according to law and that the Secretary appointed in May specifically address themselves to the issue of the investment of the fund to be sure that it is getting a fair yield on its investment, and to report back to the Congress on this question.

So the Congress has called attention to the need for a review of investment practices in the fund and this outside advisory council will report on it.

Mr. VANIK. When Secretary Finch is here, I am going to ask him what his reaction would be as a member of the trustee board to investing some part of the fund in public issues that are local or State public issues, social purpose programs, perhaps a more extensive investment in the housing field.

We might even consider the advisability of having some part of the fund invested in the private bond market. It seems to me that there ought to be a wider base for this investment. It seems to me also that there should be a more independent management of the fund. To have the fund operated as the fiscal arm of the Treasury seems to me to suit the Treasury purposes. To have its biggest buyer of securities captive to it is just exactly the situation.

Mr. BALL. I think all of these points you make are ones that this advisory council should and will go into on whether or not the investment base should be enlarged into other potential securities. They will certainly review that.

Mr. VANIK. I would like to ask how the investment portfolio of the social security fund would compare with the private fund investment as far as interest yield is concerned. Is there any comparison?

Mr. MYERS. Mr. Vanik, of course there are all sorts of different private funds. Some private pension plans, for instance, have put all their money into stocks, and others have gone into only bonds and mortgages.

Mr. VANIK. Let's take the most conservative. Let's pick out one of the big conservative private funds. Do you have any idea as to what they are managing to earn on their investment?

Mr. MYERS. Again, this would depend. If it was an old established pension fund that had been operating for many years, it would have a relatively low rate, because it would have so many investments that it bought years ago. A new fund started today would look great. It would have an average rate of 7 or 8 percent. The old funds would have some 7- and 8-percent bonds and also some 3- and 4-percent bonds so the average rate would be lower.

I would say that, if there was a typical fund that had about the same length of life and the same rate of growth as the social security trust fund, and it were invested in grade A bonds only, it would probably have a rate about 1 percent higher than we do.

Mr. VANIK. Is it possible that we could have prepared for the record a comparative study of the 10 largest private funds showing their income yield on their investments to see how it would compare with what we have done for our social security beneficiary. Would that be possible?

Mr. BALL. Do you mean pension funds?

Mr. VANIK. I mean pension funds.

Mr. BALL. Yes; we could get that.

(The information requested follows:)

INVESTMENT RATE OF RETURN FOR VARIOUS PRIVATE PENSION PLANS

The attached table shows the investment rate of return for 13 large self-administered pension funds for which data were available. It was not possible to determine the 10 largest such pension funds in the country (as had been requested), but rather from published data for a large number of pension funds, I listed all that had year-end assets of more than \$200 million.

As can be seen, the average investment rate of return varies considerably among the different plans, although most of them were in the range of 3½% to

5%. It is interesting to note that the average interest rate on the total assess of the OASI and DI Trust Funds for the same periods was about 3¾%, which was better than some of the lowest-yield private plans but slightly lower than most of them (with a differential generally not being more than 1%).

INVESTMENT RATE¹ FOR VARIOUS PRIVATE PENSION PLANS AS COMPARED
WITH AVERAGE INTEREST RATE OF OASDI TRUST FUNDS

Organization	Year	Total assets (millions)	Investment rate ¹ (percent)
American Telephone & Telegraph Co. ²	1967	\$4,617	3.84
Bethlehem Steel Corp.	1967	472	4.64
Boeing Co.	1967	338	3.48
Canadian Pacific Railway Co.	1967	459	5.08
Central States Teamsters	1967	548	14.64
Chrysler Corp.	1967	329	4.16
Dow Chemical Co.	1967	254	3.31
Ford Motor Corp.	1967	637	4.11
General Motors Corp.	1967	1,300	4.77
International Ladies Garment Workers	1967	263	4.44
Republic Steel Corp.	1967	243	4.75
Shell Oil Co.	1967	472	4.08
Western Electric Co.	1968	1,376	3.71
OASDI trust fund	1967	26,251	3.69
Do	1968	28,729	3.80

¹ Investment receipts of year as percentage of average of assets at beginning and end of year.

² Total experience of 22 separate funds of telephone operating companies.

Source: Pension and Welfare News, February through October 1969 (all funds having at least \$200,000,000 of assets at end of period).

Mr. VANIK. So that we can make some comparison as to how our achievements would rank with some of those in the private sector.

Mr. Chairman, I would like to continue this questioning if you have the time.

The CHAIRMAN. We are supposed to vote. I am sure there will be a record vote if you don't mind. Are you wearing out?

Mr. VENEMAN. We are available either to continue or to come back tomorrow morning, Mr. Chairman.

The CHAIRMAN. Let's go on further if you are not worn out.

Mr. VANIK. I would like to address this question to the Secretary.

Mr. VENEMAN. Are you working from the statement, Mr. Vanik?

Mr. VANIK. Yes. In connection with the yields on the trust fund, I hope that we can go back, Bob, for about 4 years and do your projections in the last report of the trustees. Do those estimates hold?

Mr. BALL. Not the estimates on cost; no.

Mr. VANIK. I am talking about the estimates on yield.

Mr. BALL. Well, we don't estimate yield on investments held by the trust funds. It is just a report. Mr. Vanik, we can give you an up to date report right to the minute on the current situation on the investments which are held by the trust funds, if you would like.

Mr. VANIK. I would like to have the comparison in each of the funds. I understand the unemployment compensation fund earns a little more income than the survivors fund; is that correct?

Mr. MYERS. Mr. Vanik, please repeat your question.

Mr. VANIK. They said they did a little better job than the trustees of the social security fund.

Mr. MYERS. Mr. Vanik, they have the same managing trustee; namely, the Secretary of the Treasury.

Mr. VANIK. Except there is a little advantage for the more efficient management of the unemployment compensation fund because the

more that fund earns the less employers have to pay in taxes so that there is an incentive for that, that I can see that would probably bring about a better management result.

Mr. VENEMAN. Wouldn't that also be true in the social security trust fund, Mr. Vanik?

Mr. VANIK. I am talking about the unemployment fund. In the social security fund you have a fixed contribution. In the unemployment compensation fund you have a contribution with a variable rate. So that if the income of the trust fund could be increased through more and better fiscal management and better investment, it would create a bigger fund and thereby reduce the pressures on the fund. So that there is a force at work there that is not present in connection with the social security fund and the hospital insurance fund. Am I correct about that?

Mr. VENEMAN. The only point I was making is that there is an employer contribution to social security, though not to the degree and not developed in the same manner as the unemployment insurance fund. But anything that you can develop in the trust funds for social security would be of advantage to both the employer and employee, it would seem to me.

Mr. BALL. I am not aware that they have a higher yield, but I will certainly look into it.

Mr. VANIK. That statement was made just a few days ago in the Ways and Means Committee by the Secretary of Labor and his staff and those principally involved in the unemployment trust fund.

I would like to ask the Secretary whether the advisory committee is considering the possibility of strengthening the social security fund by perhaps adding to it a couple of public trustees who are not motivated by Government decisions in the nature of investments that are made by the trust fund. What is wrong with having a couple of public representatives sit there. Of course, if they are only going to meet once a year and have no authority, I don't think we ought to have more people do that, but it seems to me that with the magnitude of this fund and the constant change in fiscal policy and the fluctuating bond rate, that it is incredible that the trustees should meet once a year in this volatile situation.

I thought they were meeting about every other day. I am astounded to see that a fund that is in the neighborhood of \$28 billion is handled in such a relaxed manner.

Mr. BALL. I think that is because the law has determined the major part of the policy.

Mr. VENEMAN. Mr. Vanik, I can't answer your question, but the Advisory Council has this under consideration. I would probably have had to ask Mr. Ball whether it would require legislative change.

Mr. BALL. It would require legislative change but the advisory council is considering all sorts of legislative changes and although it has not been on the agenda up to now, I can assure Mr. Vanik it will be.

Mr. VANIK. The current year's income in the trust fund is how many dollars? That is the old age pension fund.

Mr. MYERS. In the fiscal year that just ended on June 30, the interest income of the old-age and survivors insurance trust fund was \$1.013 billion.

Mr. VANIK. That is for what period?

Mr. MYERS. For the fiscal year ended June 30, 1969.

Mr. VANIK. At an average rate?

Mr. MYERS. At an average rate of close to 4 percent.

Mr. VANIK. A 2-percent increase in the yield would produce?

Mr. MYERS. Roughly \$500 million more.

Mr. VANIK. A half a billion dollars a year more. What is the interest average on all Government securities today outside the fund, the total?

Mr. MYERS. All that are outstanding?

Mr. VANIK. The average interest rate at market value?

Mr. MYERS. At the market yield rate, that would be about the same as for our new issues, around $6\frac{1}{2}$ percent.

Mr. VANIK. Around $6\frac{1}{2}$ percent?

Mr. MYERS. That includes the obligations that are being sold at considerable discounts.

Mr. VANIK. So doesn't it appear that we are depriving this fund of about a half a billion dollars a year in proper interest at the present rates? The average yield for all Government securities is over 6 percent.

Mr. MYERS. It is, but the people who hold them are not getting that because those who bought many of these securities years ago, when interest rates were 3 or $3\frac{1}{2}$ percent, are only getting 3 or $3\frac{1}{2}$ percent on their money and if they sold these securities to buy new ones bearing 6 or $6\frac{1}{2}$ or 7 percent, this would still just come out even for them because they would have to sell their existing investments at such a loss that it would offset the higher interest rate on the new issues.

Mr. VANIK. You know that these bonds aren't bought very much by individuals. Only a small portion of them are bought by individuals. Most of them are bought by banks and they have been turned over several times.

Isn't it true that almost 80 percent of these, probably 70 percent of these are held by banks and commercial institutions in order to meet their reserve requirements and develop a sense of liquidity and get a base from which they can extend credit?

Mr. MYERS. I don't know the proportion, but I do know that many pension funds hold Government bonds.

Mr. VANIK. They would still have them.

Mr. MYERS. They would still have them and they would be in the same position as the trust funds that were unfortunate enough to buy the bonds when they were at low interest rates. We buy them when they are at high interest rates also, but it averages out.

Mr. VANIK. Is the present day portfolio of the trust fund identical or substantially in accord with what was submitted in the report dated January 16, 1969? I suppose I should address that to the commissioner.

Mr. MYERS. I can answer that question. That distribution in that report was as of June 30, 1968. Data are available for June 30, 1969, which are more or less the same, although the June 30, 1969, distribution would have higher interest bearing investments in it.

Mr. VANIK. Well, is it possible for us to have a copy of the portfolio as it is today so that we could see what changes developed in the nature of investments?

The CHAIRMAN. Let's put it in the record at this point.

(The information requested follows:)

DISTRIBUTION OF ASSETS OF SOCIAL SECURITY TRUST FUNDS AS OF JUNE 30, 1969

The attached tables give the distribution of the assets of each of the four Social Security trust funds as of June 30, 1969, showing the book value of each of the separate types of investments, as well as the cash balances.

TABLE 1.—VALUES OF ASSETS OF OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, JUNE 30, 1969

[In thousands]

Type of asset (percent)	Date	Amount
Special issues:		
4½	June 30, 1970	\$296,526
4½	June 30, 1971	1,080,011
4½	June 30, 1974	2,720,279
5½	June 30, 1975	2,460,795
6½	June 30, 1976	3,844,864
2½	June 30, 1970	783,485
2½	June 30, 1971	1,080,011
2½	June 30, 1972	1,080,011
2½	June 30, 1973	1,080,011
2½	June 30, 1974	1,080,011
2½	June 30, 1975	919,934
3½	do.	160,077
3½	June 30, 1976	1,080,011
3½	June 30, 1977	1,080,011
3½	June 30, 1978	658,444
4½	do.	421,567
4½	June 30, 1969	1,080,011
4½	June 30, 1980	1,080,011
Total		21,986,070
Treasury bonds, nonmarketable: 2¾	Apr. 1, 1975-80	1,064,902
Marketable issues:		
5¾	Feb. 15, 1975	7,000
6	May 15, 1975	17,450
6½	May 15, 1976	22,180
6½	Feb. 15, 1976	5,000
2½	Dec. 15, 1964-69	33,000
4	Oct. 1, 1969	57,500
4	Feb. 15, 1970	15,000
4	Aug. 15, 1971	100,000
4	Aug. 15, 1973	38,000
4½	Feb. 15, 1974	61,934
4½	May 15, 1974	6,352
3½	Nov. 15, 1974	24,500
4½	May 15, 1975-85	78,023
3½	June 15, 1978-83	60,200
4½	Feb. 15, 1980	153,100
3½	Nov. 15, 1980	449,450
3½	May 15, 1985	25,700
4½	Aug. 15, 1987-92	33,000
4½	May 15, 1989-94	91,300
3½	Feb. 15, 1990	556,250
3	Feb. 15, 1995	70,170
3½	Nov. 15, 1998	552,037
Total		2,457,146
Agency securities and participation certificates:		
FNMA, 6	Dec. 12, 1969	41,500
FNMA, 5½	July 10, 1969	25,000
FNMA, 5½	Oct. 13, 1970	20,000
FAFT, GNMA, 6	Feb. 1, 1971	35,000
FALT, GNMA, 5½	June 29, 1972	50,000
FALT, GNMA, 5.2	Jan. 19, 1982	100,000
FALT, GNMA, 5.1	April 6, 1987	50,000
FAFT, GNMA, 6.4	Dec. 11, 1987	75,000
FAFT, GNMA, 6.05	Feb. 1, 1988	65,000
FAFT, GNMA, 6.45	April 8, 1988	35,000
FAFT, GNMA, 6.2	Aug. 12, 1988	230,000
Total		726,500
Unamortized premiums and discounts		-14,447
Accrued interest purchased		121
Total investments		6,220,292
Cash balance		1,970,525
Total assets		28,190,818

TABLE 2.—VALUES OF ASSETS OF DISABILITY INSURANCE TRUST FUND, JUNE 30, 1969
[In thousands]

Type of asset (percent)	Date	Amount
Special issues:		
47%.....	June 30, 1971.....	\$6,486
43%.....	June 30, 1974.....	309,178
55%.....	June 30, 1975.....	583,612
61%.....	June 30, 1976.....	1,151,608
25%.....	June 30, 1974.....	77,006
3%.....	do.....	20,738
25%.....	June 30, 1975.....	132,894
3%.....	do.....	20,738
3%.....	June 30, 1976.....	153,632
3%.....	June 30, 1977.....	153,632
3%.....	June 30, 1978.....	153,632
41%.....	June 30, 1979.....	153,632
41%.....	June 30, 1980.....	125,606
Total.....		3,042,394
Marketable issues:		
5%.....	February 15, 1975.....	10,000
6%.....	May 15, 1975.....	3,750
4%.....	October 1, 1969.....	26,000
4%.....	February 15, 1970.....	10,000
4%.....	August 15, 1970.....	14,000
4%.....	February 15, 1972.....	2,000
4%.....	August 15, 1972.....	2,000
4%.....	August 15, 1973.....	16,500
4%.....	February 15, 1974.....	10,000
3%.....	November 15, 1974.....	5,000
4%.....	May 15, 1975-85.....	20,795
4%.....	February 15, 1980.....	30,250
4%.....	August 15, 1987-92.....	80,800
4%.....	May 15, 1989-94.....	68,000
3%.....	February 15, 1990.....	10,500
3%.....	November 15, 1998.....	5,000
Total.....		314,995
Agency Securities and Participation Certificates:		
FNMA, 5%.....	October 13, 1970.....	20,000
FAFT, GNMA, 6.3.....	April 8, 1971.....	15,000
FAFT, GNMA, 6.35.....	February 11, 1971.....	50,000
FALT, GNMA, 5½%.....	June 29, 1972.....	50,000
Total.....		135,000
Unamortized premiums and discounts.....		-1,637
Total investments.....		3,490,762
Cash balance.....		186,778
Total assets.....		3,677,539

TABLE 3.—VALUES OF ASSETS OF HOSPITAL INSURANCE TRUST FUND, JUNE 30, 1969
[In thousands]

Type of asset (percent)	Date	Amount
Special issues:		
47%.....	June 30, 1971.....	\$157,770
4%.....	June 30, 1972.....	46,131
4%.....	June 30, 1973.....	46,131
4%.....	June 30, 1974.....	415,179
5%.....	June 30, 1975.....	495,529
6½%.....	June 30, 1976.....	729,200
Total.....		1,889,940
Agency securities and participation certificates:		
FNMA, 6.....	Dec. 12, 1969.....	41,500
FAFT, GNMA, 6.3.....	Apr. 8, 1971.....	20,000
FALT, GNMA, 5.2.....	Jan. 19, 1982.....	50,000
Total.....		111,500
Unamortized premiums and discounts.....		+4
Total investments.....		2,001,444
Cash balance.....		15,078
Total assets.....		2,016,521

TABLE 4.—VALUES OF ASSETS OF SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND, JUNE 30, 1969

[In thousands]

Type of asset (percent)	Date	Amount
Special issues:		
4½%.....	June 30, 1974.....	\$134,238
5½%.....	June 30, 1975.....	6,527
6½%.....	June 30, 1976.....	217,206
Total.....		357,971
Cash balance.....		19,803
Total assets.....		377,774

Mr. VANIK. Put it in the record so that we could have the status of the fund. Mr. Chairman, I suppose we may as well have that for the other funds that we are concerned with today. Let's do it for all of the funds so that we have a statement in the record indicating the present investment portfolio of the various funds with which we are concerned today.

Mr. Chairman, I have no further questions at this time.

(The information requested follows:)

AVERAGE INTEREST RATES OF SOCIAL SECURITY TRUST FUNDS AND UNEMPLOYMENT INSURANCE TRUST FUND

The attached table compares the average interest rates, as of June 30, 1968, and June 30, 1969, on the investments of the four Social Security trust funds as compared with the corresponding rates for the Unemployment Insurance Trust Fund.

In considering these data, it should be kept in mind that these average interest rates are affected by the formulas determining the interest rate on new special issues (which formulas are different as between the Unemployment Insurance Trust Fund and the four Social Security trust funds) and by the different incidences of investments as between the several trust funds. In regard to the latter point, a trust fund that had many investments which were obtained years ago would tend to have a much lower average interest rate than a trust fund whose investments were all of recent origin.

Considering the data for June 30, 1969, the interest rate of the UI Trust Fund was about .3% higher than that of the OASI Trust Fund but was significantly lower than the average interest rates of the other three Social Security trust funds. The explanation for these differences is—as indicated previously—primarily the result of the OASI Trust Fund having many investments which were made years ago, whereas the other three Social Security trust funds have investments which have been made much more recently. The UI Trust Fund is “rolled over” annually—rather than having any long-term special issues—but its interest formula produces a lower result than that applicable to newly-issued special issues of the Social Security trust funds.

AVERAGE INTEREST RATES OF INVESTMENTS OF VARIOUS SOCIAL SECURITY TRUST FUNDS

[In percent]

Fund	Average interest rate	
	June 30, 1968	June 30, 1969
Unemployment insurance.....	4.29	4.55
Old-age and survivors insurance.....	3.93	4.29
Disability insurance.....	4.49	5.17
Hospital insurance.....	5.17	5.69
Supplementary medical insurance.....	4.77	5.83

The CHAIRMAN. Without objection, the committee will adjourn until 10 o'clock in the morning in this room. All of you come back, if you will.

(Whereupon, at 6:15 p.m. the committee adjourned, to reconvene at 10 a.m., Thursday, October 16, 1969.)

SOCIAL SECURITY AND WELFARE PROPOSALS

THURSDAY, OCTOBER 16, 1969

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D.C.

The committee met at 10 a.m., pursuant to notice, in the committee room, Longworth House Office Building, Hon. Al Ullman, presiding.

Mr. ULLMAN. The committee will be in order.

Our procedure this morning will be to recognize you, Secretary Shultz, and then the committee will question Secretary Veneman and yourself on this matter.

Could you be here all morning with us, Mr. Secretary?

STATEMENT OF HON. GEORGE P. SHULTZ, SECRETARY OF LABOR;
ACCOMPANIED BY HON. ARNOLD R. WEBER, ASSISTANT SECRETARY FOR MANPOWER; HON. JEROME M. ROSOW, ASSISTANT SECRETARY FOR POLICY DEVELOPMENT AND RESEARCH
HON. JOHN G. VENEMAN, UNDER SECRETARY, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE; ACCOMPANIED BY HON. ROBERT M. BALL, COMMISSIONER OF SOCIAL SECURITY; HON. MARY E. SWITZER, ADMINISTRATOR, SOCIAL AND REHABILITATION SERVICE; HON. ARTHUR E. HESS, DEPUTY COMMISSIONER OF SOCIAL SECURITY; HON. ROBERT E. PATRICELLI, DEPUTY ASSISTANT SECRETARY; HON. HOWARD A. COHEN, DEPUTY ASSISTANT SECRETARY; HON. CHARLES E. HAWKINS, SPECIAL ASSISTANT TO THE ADMINISTRATOR, SOCIAL AND REHABILITATION SERVICE; HON. ROBERT J. MYERS, CHIEF ACTUARY, SOCIAL SECURITY ADMINISTRATION; AND HON. JULE M. SUGARMAN, ACTING DIRECTOR, OFFICE OF CHILD DEVELOPMENT

Secretary SHULTZ. I can make my time completely available to the committee. There is only one thing that I would appreciate to the extent that it is possible. We have the ministers of labor from all the countries of Latin America here this week for a conference and I am the chairman of the conference being sponsored by the OAS.

To the extent possible, I would like to tell them I will be there at some time or another. I want to make my time completely available to the committee. I just need to know when you will want me so I can plan, that is all.

Mr. ULLMAN. You could be with us this morning and possibly part of the afternoon?

Secretary SHULTZ. I can be here the entire day, if I am needed.

Mr. ULLMAN. By the time we recess for lunch, we will know whether we need you additionally this afternoon and we will set some time limits so that you can make definite plans.

We are happy to have you again before the committee, Mr. Secretary.

Do you have a prepared statement?

Secretary SHULTZ. Yes, I do.

Mr. ULLMAN. You may proceed with the statement.

Secretary SHULTZ. Thank you.

I am happy to be with this committee again. I seem to be making a career out of meeting with you.

Mr. ULLMAN. Right.

Secretary SHULTZ. Mr. Chairman, and members of the committee, I am pleased to testify on the proposed Family Assistance Act, for I believe that it is one of the most far-reaching pieces of social legislation in this area in several decades.

Let me start by saying that this is not a proposal for a guaranteed minimum income. Work is a major feature of this program. This is a program of family assistance—for families with children—and is limited to that specific group.

The family assistance plan is a composite program of work incentives, training and employment opportunities, child care and income allowances.

I believe very deeply, Mr. Chairman, that the time has come to start over on providing assistance to needy families. We should not be content to just mend AFDC; the record is clear that AFDC doesn't work.

The family assistance plan is a new start.

I believe the changes we propose are consistent with the forward-looking changes made recently by this committee with regard to training opportunities, and the treatment of earned income. Family assistance, in a sense, builds on the foundations already laid by recent amendments to AFDC.

My responsibility lies not with the whole of the family assistance plan, although I am interested in the whole plan, but particularly with its relationships to the labor market. It is my concern that the program be structured in such a way as to protect work incentives, and that the program in its total design be one that creates the strongest possible conditions for moving people from welfare into employment.

Thus, I will discuss the way the allowance motivates people to work, the role of training opportunities in reducing welfare, the operation of registration and work requirements, and our expectations for providing the necessary employment opportunities within the regular economy.

WORK INCENTIVES AND THE FAMILY ASSISTANCE STRUCTURE

I have identified seven specific ways in which the family assistance plan promotes work. I will summarize each of these briefly.

1. The incentive of welfare recipients to go to work has been increased by enlarging the income disregard and limiting the reduction

of family assistance to one-half of earnings. Employed AFDC recipients retain only the first \$30 of income plus one-third of earnings above that. Family assistance recipients will be able to keep the first \$60 of monthly earnings plus one-half of all income in excess of that amount.

The existence of a dual system in 40 States makes it necessary to compound tax rates to some extent so as to allow the States to reduce their supplemental payments as earnings increase.

However, the States would be directed to observe the same \$60 earnings disregard in computing the State supplement, so that State practices do not nullify those of family assistance. Also the States may subtract only 17 cents of the supplement for each dollar of wages above the \$60 disregard, bringing the total marginal tax rate on gross income to 67 cents on the dollar.

The disregard of the first \$60 of earnings is based on Labor Department surveys of the "cost of work." This is based on budget studies made by the Bureau of Labor Statistics of outlays for added food, transportation, clothing and personal care, medical care, payroll deductions, and occupational needs such as tools, licenses, and union dues. These costs must be recouped before the individual realizes any additional income from working.

The result is a double incentive. When a welfare recipient goes to work, his or her combined wages and family assistance increase, so there is always an incentive to work. On the other hand, as earnings increase, the Government saves money because the family assistance payment is reduced. Thus, the Government has an incentive to provide the necessary training and employment opportunities.

2. The extension of coverage to the working poor eliminates the situation where those who do not work receive higher incomes than those who work. The present welfare system excludes from coverage those who work regularly but at very low wages, or intermittently. This sometimes creates situations where some who work may have less income than others who do not work at all. To expect them to continue work under such circumstances is to expect individuals to behave in a manner adverse to their own economic interests. This is no way to assure the public interest.

3. The incentive of the working poor to seek higher wage levels is preserved. Since there rarely will be a State supplement for men already at work (because most State systems do not cover the working poor), the tax on earnings will be limited to 50 percent; in other words, only the Federal portion of this plan is operative. This means it will always pay an individual to increase his earnings. Also, the bill contemplates a program to upgrade the skills of the working poor so they may qualify for higher wages.

4. There is a financial incentive to enter manpower training programs. When a recipient enters training, the family will receive at least a \$30 increase in monthly income. If the allowance under the regular training program would be more than \$30 higher than family assistance payments (plus State supplement), the supplement to the family assistance trainee will be in the difference between the two allowances. So, in most cases, the financial incentive to take training will be in excess of \$30.

In the case of North Dakota, for example, family assistance plus the State supplement would equal \$188 a month for a family of four. However, since the Manpower Development and Training Act allowance in that State for the head of a family of four is \$255, the incentive payment would be \$67 per month—the difference between \$188 and \$255.

In addition to the incentive payment, persons taking training will be reimbursed for necessary expenses, such as transportation.

5. The child care provided in this act itself will be a strong employment and training incentive. The lack of adequate child-care arrangements often has been the major barrier to entering training programs or seeking employment. The fact that child care will not only be available, but will be of high quality, will permit mothers to look upon child care as an opportunity for their children as well as an opportunity for the mothers to become economically self-sustaining.

It should be recognized that child care is an investment in not one, but in two generations. It is an investment in the present generation in the sense that it frees the mother for training or employment. It is an investment in the next generation because it provides the child an early education, quality care, and attention to health and other needs. In looking at child-care costs (and it is expensive), this double effect should be borne in mind, and we should not "charge" all these costs to helping welfare mothers get work. Much of the return will be in the kind of education we owe our young people anyway and in reduced welfare costs in the next generation.

We have a long way to go in creating adequate child-care provisions in the United States. Yet, there is no doubt that we are capable of providing it. We did in World War II. When the Kaiser shipyards hired Rosie the Riveter, they built child-care centers for Rosie's children, and kept them open 24 hours a day. Yet at the present time, only about 2 percent of the children of working mothers are being cared for under group care arrangements.

If somebody asked me what is the most important thing in this whole plan, I would say it is the idea of quality child care. I recognize the plan has a lot of dimensions to it and a lot of important aspects. But if I had to single out some one single thing, I think that is what I would put my emphasis on.

6. The system of financial incentives will be buttressed by requirements that certain categories of recipients register for training and employment with the local manpower agency. Every member of the family, with six exceptions specified in the law—note there "exceptions specified in the law;" they are explicit, operational definitions—are required to register with the employment service, and accept suitable employment. If a recipient refuses to register, or refuses suitable manpower services, training, or employment in which he is able to engage—without good cause—his portion of the family assistance payment will be denied. In such cases, the Secretary of HEW would continue to pay the remaining benefits to the rest of the family. Thus, the whole family will not be made to suffer.

7. An "Employability Plan" will be developed for those who register for training and employment. The bill would require that such a plan be developed for all who register, while recognizing the need to set priorities if the volume of registrations is sometimes greater than

available resources. This means that the manpower agency will assess the needs of the individual, ascertain what manpower services are required by that person to become self-supporting, and follow through until the individual completes the plan.

THE ROLE OF TRAINING IN REDUCING WELFARE

Clearly, the work incentive program provided by the 1967 amendments to the Social Security Act has established a foundation on which to build a larger training program in support of the Family Assistance Act.

In reviewing the experience with that program thus far, I want to begin by saying, quite candidly, that we have some problems.

One of the most difficult problems has been the provision of child care. Public day-care arrangements are still very scarce, and we could increase enrollments in WIN quickly if more were available. Secretary Finch has already discussed this problem with you. We feel that it is a problem that can be overcome. Doing so may require some innovative approaches.

While the State employment service has made considerable progress, there is much to be learned about the problems of disadvantaged individuals. The restructuring that is necessary for really efficient service is slowed by delays in training and retraining personnel. State salaries are frequently too low to attract and retain the most qualified people for this important and demanding work. And, as I will emphasize later, the WIN approach is the most sophisticated we have developed to date.

Our attempts to move quickly to establish WIN has resulted in some localities opening their doors before the programs were ready to serve their clients. But these kinds of problems are being overcome with time.

So far, there has been a lack of consistency among the policies of the State welfare agencies in deciding who is "appropriate" for referral. As you know, the welfare agency under the present program decides who is appropriate and who is not. This has created wide differences among the States in the size of WIN training programs relative to their welfare populations. For example, in New York, only 7 percent of those screened by the welfare agency were deemed appropriate for referral to the employment service. However, in Utah 9 percent of the assessments were considered appropriate for referral. The proposal removes the word "appropriate", in favor of specific exceptions, and thus removes this inequity. Furthermore, since referrals will be made by the Social Security Administration, rather than State welfare agencies, a consistent nationwide policy will be achieved.

Despite attempts to coordinate the job development efforts among different manpower programs, and within the WIN program itself, there are still inefficiencies in this process. As a result, the different programs run the danger of competing for the same pool of jobs, instead of expanding that pool. And employers become irritated at being approached so many different times. The passage of the Manpower Training Act will correct many of the basic structural problems inherent in operating many programs, instead of a single comprehensive program.

In spite of these startup problems, the WIN program is operating at a substantial level. The program opened its doors in October of 1968, about one year ago, enrolling almost 6,000 people in that month. Then it grew steadily, reaching an enrollment of 64,000 persons by the end of August of this year. Achievement of our enrollment target of 150,000 by the end of fiscal 1970 will make WIN one of the largest of the manpower programs. On a cumulative basis, 92,000 persons had been enrolled through August.

We conducted a survey of 4,600 WIN-employed participants in six States who had completed the program. The majority were employed in clerical and sales work, service and production, assembly and construction occupations. The rest were spread among a variety of occupations such as, for example, motor freight transportation, materials handling, machine trades, and processing occupations.

In the States surveyed, the median earnings were \$2.27 per hour. The median rate for men was \$2.47 per hour, and for women, \$2.02 per hour.

EFFECTIVE OF TRAINING

The WIN program is young, for to date only 13,000 were employed following training. We cannot yet offer a firm judgment of success. However, we believe that it is a very promising program in concept and that its design is a rational one.

It provides a coherent cluster of services such as remedial medical attention, child care, job "coaches," orientation to the work world, basic education, job training, job counseling, placement, and intensive followup into employment.

All of these are fitted together in an individual employability plan, and by the team approach which brings all of the specialists together to serve a specific, assigned group of clients.

Most encouraging of all is the fact that mothers are volunteering for the WIN program, and that sanctions have been used for less than 200 persons. So far, none of them have been mothers.

Because of the importance of training to the goals of the Family Assistance Act, I would like to present this committee with the best information available on what can be expected from such training programs, by looking at the experience of public assistance recipients trained under the Manpower Development and Training Act. About 24,000 such recipients received training in 1968, and a total of 91,000 were trained since the beginning of the MDTA program in 1963. MDTA provides a rough idea of what kind of success we will have under WIN.

Among public assistance recipients trained in 1967, 58 percent of those taking classroom training, and 72 percent of those receiving on-the-job training were in jobs at the time of followup surveys. Because WIN is a newer program with a broader range of coordinated supportive services, the success rate may be higher.

While the replacement rates for public assistance trainees are lower than for others it is encouraging that public assistance recipients who did get jobs were receiving wages practically identical to those received by all MDTA trainees. In classroom training programs public assistance men earned \$2.21 per hour compared to \$2.27 per hour for all graduates. And in the case of women, public assistance recipients earned \$1.74 per hour, compared to \$1.72 for all women graduates.

The wages were higher in on-the-job training, with public assistance men receiving \$2.36 per hour, and women \$1.80 per hour.

At even the lowest average wage, the \$1.74 per hour, a family of four would at least be lifted to the poverty line. Moreover, current wage levels are likely to be from 8 to 10 percent higher than those received by graduates in 1967.

This does not mean that training is always going to remove people from the welfare rolls. Some don't get jobs after training, in spite of our efforts to relate to it current labor market needs. Others obtain jobs at wages insufficient to fully remove them from poverty. And still others find better paying jobs but lose them for one reason or the other.

The basic point is that training can be a significant tool for reducing welfare, but it cannot by itself do the whole job, and it will not always work for all people.

THE EXPANSION OF TRAINING

The potential of training is great enough to warrant a considerable expansion under the family assistance program. In announcing the program, the President stated that training would be expanded by 150,000 persons during the first full year of family assistance. This would be in addition to the increased training levels already planned for WIN. Also, a skill upgrading program will be initiated for 75,000 of the working poor.

REGISTRATION

The Family Assistance Act requires registration for manpower services, training, and employment with the local public employment office of the State. Those exempt from this requirement are as follow:

Those ill, incapacitated, or of an advanced age;

A mother or other relative caring for a child under 6;

The mother if the father or another adult male relative is in the home;

A child;

A person needed in the home to care for an ill member of the household; and

Those working full time, because they are working.

The groups excluded from mandatory referral may register voluntarily if they choose to. The penalty for failure to register without good cause is the denial of benefits, by the Secretary of Health, Education, and Welfare, based upon notification by the Secretary of Labor that a person has not registered. In such cases, arrangements will be made so that other family members will continue to receive their allowances.

Out of the 5 million family heads covered by family assistance, we estimate that 1.1 million will be required to register, and that 1.8 million will already be working full time. In addition, there will be a substantial number of voluntary registrations. We believe this latter group will consist mostly of mothers with preschool children, based on our experience with WIN.

An employability plan will be developed for each person who registers, "in accordance with priorities prescribed" by the Secretary of

Labor. Our objective will be to provide such an employability plan for every person who registers. However, where the number of training opportunities are limited—whether by the availability of funds, the inability to expand training at the rate needed, or limitations on how many persons the labor market can absorb—it will be necessary to assign priorities for which groups are served first.

Your question, I am sure, is how the employment service is going to serve such a large number of additional people. The answer is that some new approaches are going to be needed in the way the employment service conducts its business. We have plans to change the method of operation. In some cases trial runs are underway. In others, such trials will commence very soon. As of now we have three major steps in mind.

The first is to introduce computers into employment service operations just as fast as it can be done. The computer enables us to establish a "job bank" which provides a daily print-out of all the jobs that are reported. This is in operation right now in Baltimore, and has greatly accelerated the ability of the employment service to place disadvantaged persons. For example, placement of disadvantaged applicants increased by 150 percent in Baltimore because of the wider exposure of job opportunities via the job bank. Then we can move on to computer matching of the man and the job, a system now in use in Utah and Wisconsin.

Our target is to have 54 job banks installed by the end of this fiscal year. By the end of the calendar year, 1970, we expect to expand this to 76.

I might just comment that the job bank as a working operation has been quite successful and we think we understand that and know how to put it into other places. In other words, we are dealing with a tool that we know about, so we are moving ahead very rapidly on that.

We also know how to do man-job matching by computer, which—in a sense—requires an individual bank. The matching of individuals and jobs using the computer is a more difficult process and I think we have to say that we are still in a kind of an experimental stage there. We are not sure just how this works and so we are expanding that less rapidly, but we are learning about it very rapidly as a result of the job bank operation.

In the next year or two, a new employment service automated reporting system will be installed. This will permit us to "track" individuals through the application—employability—placement process so that we can improve the system on the basis of facts rather than intuition. It is one of the more interesting things that is happening. When you begin to work with a computerized operation you find yourself able to make much clearer analytical observations about what you are doing and on the basis of that you can step in with improvements with greater confidence.

The second is to organize the local employment service office in a way that will enable it to meet its traditional responsibilities for providing job assistance to those who are not poor, at the same time that it frees its resources to provide intensive assistance to those who have really serious employability problems. For the better equipped group of clients, there is going to have to be more "self-service," and we believe that the computer will enable us to provide this in such a way

that these clients are well served, without requiring the staff time now being used.

This new operating arrangement, which has the support of the Inter-State Conference of Employment Security Agencies, has already been designed, and will be tested for about a year in six cities.

I might just comment, in visiting the Baltimore job bank the other day this same concept is sort of emerging there and the notion is very clear that for some kinds of jobs and people all that person needs is information. He doesn't need any counseling, doesn't need any fancy testing, just information about where are jobs that he might look into. Other people need a different array of services, and this kind of distinction is being made and it works out.

The third is to provide unemployment insurance claimants, who on the average are reemployed rather quickly, with more job information directly from the U.S. office, and thus lighten the burden on the employment service. The unemployment insurance office could have the list of job openings from the job bank, and supply that information directly. The information itself, of course, would have to come from the employment service.

This is being tried in five cities this year, including Baltimore which has the job bank. We are requesting resources to make this new system operational in the 55 largest metropolitan areas in fiscal year 1971. These areas account for about half of the total U.I. caseload.

Beyond these specific improvements in the employment service, an improvement is planned in the entire Federal-State system of providing all manpower services, including training. That approach is incorporated in the administration's Manpower Training Act, which is pending before another committee. The manpower services provisions of this bill are written to parallel the Manpower Training Act, so that when both are passed we will have an integrated manpower delivery system.

JOINT TASK FORCE

The Family Assistance Act is a major legislative proposal that requires close working relationships between the Labor Department and the Department of Health, Education, and Welfare.

Unfortunately, our two departments have not always worked together as smoothly as they should. The study made by the Legislative Reference Service of the enactment of WIN establishes this fact. There have been gaps in communication, and a history of competition for running the work training program.

Secretary Finch and I plan to have a maximum of coordination in the administration of these joint programs. To achieve this, we are establishing a joint HEW-Labor Task Force for the implementation and conduct of the programs we are responsible for.

This task force will assure a commonality of objectives, and develop joint guidelines, reporting procedures, and evaluation plans. It will also have the effect of bringing people together in the spirit of trying to work things out and that kind of relationship will have a number of side benefits.

THE WORK TEST

A family assistance recipient will be denied benefits if he refuses "without good cause to accept suitable employment in which he is

able to engage." He must also accept suitable training and manpower services.

The key word is "suitable." It is a test that has long been used in unemployment insurance, and over the years, through agency and court interpretation, a large body of case law has established its meaning in different situations.

We expect that a similar process will occur in the case of family assistance. It will be applied on an individual by individual basis, under guidelines that the Secretary of Labor will be responsible for providing to the State agencies. There will be appeals, and there will be hearings on those appeals. Cases may be taken to court where matters will finally be settled.

It can be somewhat more specific than this. We intend to follow the same policy with respect to wages as we now do in WIN, and in the proposed Manpower Training Act. We do not require a person to take a job that pays less than the applicable minimum wage, or the prevailing wage, whichever is higher.

But a policy of this sort does not contain the whole story. Our objective is to move people out of poverty and off welfare. We are not going to be out looking for low wage jobs. We want the highest wages possible. And to the maximum possible extent we are going to train people for jobs at decent wages, whenever we find that they cannot get good jobs with their present skills.

There is no intention of doing anything that would undermine existing wage levels. We are not going to open up a new cheap labor supply to employers who are not paying the going rate.

Having said this, I hasten to add that the labor market itself must be recognized as a constraint on the full achievement of our expectations. It is a fact that our economy has a lot of jobs that pay low wages. We are not going to be remaking the economy in this program. We have to relate to the labor market. We can only put people in the jobs that exist.

What this means is that we will have to thread our way between our goals of providing good jobs — after training when possible — and the realities of the kinds of jobs that are available.

Although family assistance relies primarily on incentives to work, it does include sanctions. These sanctions should be put into perspective.

By and large we expect that people will take jobs we eliminate the barriers that have stood in the way of employment. Studies have shown that people on welfare are little different in their attitudes toward employment than persons not on welfare.

With the strong incentives to work that are built into the family assistance structure, I do not believe that it will be necessary to use sanctions very frequently. It is clear, even at present, that the AFDC population is not a static one. People are leaving the rolls every day for a variety of reasons, including taking jobs. Of the 600,000 who left the rolls during 1968, 37 percent departed because of increased earnings of someone in the home.

The denial of benefits in the unemployment insurance system because of refusal to accept suitable work is a relatively infrequent occurrence. In fiscal year 1969, less than 0.1 percent of claimant con-

tacts resulted in a disqualification from benefits due to refusal to accept suitable work.

There undoubtedly will be some who will refuse work in family assistance, despite the strong incentives which exist. It would not be fair to those who do work, or to the Nation's taxpayers, to allow them to choose idleness and a "free ride." A work requirement is not unreasonable as a condition of receiving family assistance benefits.

THE WORKING POOR

By and large, the programs that have been designed thus far to fight poverty have concentrated on the unemployed or families without a breadwinner. But this is not the full face of poverty. In the majority of poor families, where the head is under 65, the family head is working. Thus, the working sector harbors as much poverty as the nonworking sector.

Who and where are the working poor?

Half live in the South;

Over one out of three of the family heads have less than 8 years of education;

Over four out of 10 of the family heads do not work full time, the year round; and

One out of three is black.

The Family Assistance Act covers the working poor, and thereby includes them in the efforts of the Nation to eliminate poverty. Those who are employed and still poor will have their wages supplemented as well as those who are not able to work.

We estimate that among the population covered by the Family Assistance Act, there are 1.8 million family heads who work full time, for a full year, and still suffer the affliction of poverty. This is a larger number than those who do not work at all.

It is a group, we believe, that deserves the concern of the Nation and inclusion in the legislation which is before you.

RELiance ON THE REGULAR ECONOMY FOR JOBS

We believe that "work experience" programs, in which people are employed for temporary periods in public service jobs, are a useful component of a comprehensive manpower system. Such programs can be helpful in cases where there is no recent experience in employment by providing an opportunity to learn the demands of work.

It is not our intent to create jobs in the public sector especially for the hard-core unemployed as a way of solving manpower problems. We believe that such jobs are not a solution to employment problems, and represent instead a failure to face up to the more difficult task of equipping individuals to compete for the ever-increasing number of real jobs that our economy is producing. We estimate that there will be 2 million job openings a year in clerical, sales, and operative occupations.

The problem, as we see it, is to remove people who can work from positions of economic dependence. We believe this means they should not have to depend on government supplying their work and their wages, just as much as it means that they should strive for independ-

ence from public welfare. A welfare job is no substitute for a welfare check.

Neither do we believe that public employment should be a basis for guaranteeing jobs. Government should assume a responsibility for maintaining a healthy economy that produces enough jobs, and commit itself to preparing people to fill those jobs. We want no work-inventing system that offers a way around this basic responsibility.

In fact, regular public employment in State and local governments is increasing every year. We have launched efforts to channel disadvantaged persons into those jobs, in much the same way that private employers are encouraged to hire and train such workers in the JOBS program run by the National Alliance of Businessmen. We are interested in developing more of these regular public jobs for the disadvantaged.

The Manpower Training Act provides authority for the kind of work projects that I have described. The Family Assistance Act, which is written to parallel the Manpower Training Act with regard to the services offered, also includes such authority. We intend to use it where it applies, in a context of moving people into regular jobs. But we do not expect it to be a major feature of the manpower program.

Mr. Chairman, these are the main points I wanted to make in my formal statement.

We recognize that this new departure in welfare will require a substantial initial investment. But we believe that a transformed system will set in motion forces that will lessen dependency and foster economic growth. These substantial "startup" costs now will ultimately cost us less as a nation, both in terms of dollars expended and lives wasted and warped.

This program has had the benefits of extended analysis and discussion, at the highest levels, and throughout the administration. We feel we are right about the need to reform welfare, and the directions we have chosen. As we remove the barriers to employment through training and child care programs, and as we build work incentives into the allowance structure—and remove the disincentives—welfare people will go to work and the upward spiral of costs will be reversed.

Through the centuries our social policies have become much more humane, but whatever the purity of our intentions, actions have often been perverse, with a tendency to punish as well as protect. The right of life for all our citizens is a matter that calls for our best effort, and our most considered judgment.

I recall to you the opening words of the President's message, that "A measure of the greatness of a powerful nation is the character of the life it creates for those who are powerless to make ends meet."

Mr. Chairman, I have a couple of charts over there which I would be glad to talk about now, if you wish, or you might want to postpone that. The objective of the charts is to kind of explain in a graphic way what happens to an individual, so to speak, as he flows through this welfare to work system, what are the steps that you go through. I would be glad to do that now or if you wanted to wait, I would be glad to do it at some other point.

Mr. ULLMAN. I think it might be advisable to do it in response to questions which I am sure will be forthcoming.

Mr. GIBBONS. Mr. Chairman, does the witness have any charts that he could pass out? It is a little hard to see that thing from here.

Secretary SHULTZ. Yes, we do. If somebody will just ask me the right question, I will get to that.

Mr. ULLMAN. I am sure you will get the right question, Mr. Secretary. We appreciate your statement, Mr. Secretary. I am going to have a number of questions, but will reserve them. I would like to comment very briefly. I do appreciate your statement. I think there is much that you are suggesting here that will improve our program. But I was impressed with the fact that there is very little in your work program that is new. Most of what you are doing is building upon present authority. Very little of what you are recommending is based upon new concepts. Most of it is built upon a program now in being. I would refer, for instance, to the income incentive aspects of your program. What you have done is taken what we put in the bill 2 years ago as a work incentive and doubled it. We have it in the law now. I think probably there is merit in doubling it, but it is not a new concept.

Your training programs are being built upon your manpower development and training assistance programs. In most part, I see very little there that is new.

You are now in the process of computerizing. You are now in the process of modernizing and trying to make more effective your efforts in this direction, and certainly I commend you for that. You said the child care was one of the most important features in the bill. We, as you well know, spent a great deal of time 2 years ago when we were working on this welfare program in building the basis for a comprehensive child care program across the Nation. This also is not new.

The committee at that time came to the very definite conclusion that this was important, and I am only appalled that it has not been implemented much more than it has. I am going to want to ask some questions about that.

I, too, think it is important, but it is in the law today and even if we were not to change the welfare concept we have the necessary provisions whereby we can go ahead and implement it. It is not being implemented adequately today.

And, so, it goes, across the board with your recommendations.

These are not basically new. They are not based upon a new concept of welfare but they are based upon provisions of the law now in existence in most part. Would you not agree that that is the case?

Secretary SHULTZ. May I comment on that?

Mr. ULLMAN. Yes.

Secretary SHULTZ. First of all, I would be the first to acknowledge the wisdom of this committee, as you have approached this subject over the years, and I think in my statement I did take note of the very deep sense in which in designing this program we tried to build on the 1967 amendments and have tried to gain all of the experience we possibly could in designing what we think of as a new step here.

In some ways, what is proposed extends concepts that are presently in use. In some places it simply preserves a concept that is now in use. In other cases it moves to a completely different basis and trying to learn from difficulties that we are now having. I think in an overall way at least the aspect of it that gives me a sense of forward motion,

and whether it is brand new or not I don't know, but I think at least there is a sense of forward motion that I feel, is the effort to take all the pieces and put them together in a comprehensive way and ask how does this relate to that, and try to look on it as an integrated system and one that includes the working poor as well as the nonworking family groups.

So, in this sense, I think what is proposed has an element of freshness and forward movement that is very important to note.

At the same time, again, let me say, as I said in my statement, that I would be the first to acknowledge the great work done by this committee in working on this program over the years.

Mr. ULLMAN. I will reserve a number of questions that I have and recognize Mrs. Griffiths.

Mrs. GRIFFITHS. Thank you very much, Mr. Chairman.

I would like to ask the HEW Secretary—will you tell me what a husband and wife with eight children would draw now in the State of Mississippi?

Mr. VENEMAN. Under the present AFDC program?

Mrs. GRIFFITHS. Yes.

Mr. VENEMAN. A husband and wife with eight children would not be entitled to benefits in Mississippi.

Mrs. GRIFFITHS. A woman with eight children?

Mr. VENEMAN. A woman with eight children?

I think Mr. Hawkins has that.

We were using average figures. This would be an unemployed woman without any supplemental income?

Mr. HAWKINS. Mississippi has a family maximum of \$90 per month.

Mrs. GRIFFITHS. Under your program an unemployed woman with eight children in Mississippi, what would you pay her?

Mr. VENEMAN. She would receive \$500 for the first two persons which would be a thousand, plus seven, \$2,100; \$3,100 per year.

Mrs. GRIFFITHS. \$3,100.

How much could she get in food stamps?

Mr. PATRICELLI. This is a mother with seven or eight children?

Mr. VENEMAN. Eight in a family, mother with seven children.

Mr. PATRICELLI. Assuming family assistance is in place?

Mr. VENEMAN. \$3,100 would be her basic Federal entitlement with that many children.

Mrs. GRIFFITHS. And how many people in that family could earn \$700 a year and not have it count, or whatever it is, \$720?

Mr. VENEMAN. One person would be entitled to the disregard. However, there are provisions in the act that allow students—if some of the children were in school, for example—to retain their earnings as well.

Mrs. GRIFFITHS. Supposing you have a woman in Mississippi with eight children and that woman is not working, eight daughters, and beside her is a woman with eight sons. They look the whole situation over and they decide to marry off the first son and daughter, with no kids. How much will that increase the total AFDC? That son and daughter is each entitled to \$300?

Mr. VENEMAN. No. If that son and daughter were from these two particular families and got married, they would not be entitled to anything.

Mrs. GRIFFITHS. The son and daughter wouldn't?

Mr. VENEMAN. No, because they would not have children. Presumably, they wouldn't have children. If they have one and if they qualified, if they were unemployed, then they would get \$1,300, if they had one child.

Mrs. GRIFFITHS. \$1,300. And how much would they get in food stamps?

Mr. VENEMAN. But they can't live together with their parents families. They have to establish a separate residence. And the payment to the other two families, of course, would be decreased.

Mrs. GRIFFITHS. Could separate residences be an apartment in the house of one of the parents?

Mr. VENEMAN. I would assume so, if it were a bonafide apartment. If it was done for the purpose of obtaining welfare, of course, that would not be permitted.

Mrs. GRIFFITHS. But they could do it?

Mr. VENEMAN. If one of the homes was an apartment dwelling and it was there for the purpose of renting apartments to anyone, I would say that they would have established a separate domicile.

Mrs. GRIFFITHS. So, instead of paying them now \$300 each you are going to be paying them \$500 each?

Mr. VENEMAN. No. Mrs. Griffiths, first of all, presumably, when the son and the daughter leave the two families you have reduced the grant to those two families by \$600 a year.

Mrs. GRIFFITHS. All right. But you have substituted a thousand dollars.

Mr. VENEMAN. No. We won't substitute until they have a child. Nine months later, presumably they could be getting \$1,300.

Mrs. GRIFFITHS. Now, you have a girl and boy married with a child and you are going to pay them \$1,300?

Mr. VENEMAN. That is correct, assuming they are eligible.

Mrs. GRIFFITHS. They are entitled to free food stamps, are they not?

Mr. VENEMAN. They have to spend a portion of their income from the family assistance program for food stamps. If they were still unemployed, with no income, they would have to expend \$400. One-third of the \$1,300 would have to be spent for food stamps, roughly.

Mrs. GRIFFITHS. Are you going to require the boy in this case to take training?

Mr. VENEMAN. Yes, if he is capable of accepting training. The only persons that would not be required to take training would be those who met those criteria that Secretary Shultz established, and this young man, we will presume, has no disability or any other affliction that would keep him out of it.

Mrs. GRIFFITHS. Are you going to require that he go to school, that he finish high school, at 14?

Mr. VENEMAN. If he is 14?

Mrs. GRIFFITHS. Yes.

Mr. VENEMAN. I think there would be a State law——

Mrs. GRIFFITHS. In Mississippi.

Mr. VENEMAN. I am not sure what the law in Mississippi is, but I think most States have laws that require children of that age to stay in school.

Mrs. GRIFFITHS. Do you know of any State that requires a young man with a family to go to school?

Mr. VENEMAN. Let me answer it this way: I know of no exception for marital status in whether or not they have to continue in school up until 16 years of age.

Mrs. GRIFFITHS. There has only recently been a case in the United States where a city had decided that if a girl had an illegitimate child she would not be accepted back in school. Some very intelligent, kind people tried a case on this and they forced the school to accept the girl. But I don't know of any State that forces the father of a child, who has a wife, and who could get a job or who could do something to go back to school. I don't know of any State that does that, and I think it would be interesting to know so; if you find that answer, I would like to have it.

Now, you are not going to force the girl to work, are you? In fact, she is one of the people that doesn't have to.

Mr. VENEMAN. Not in this particular case, because that child would be under 6 years old.

Mrs. GRIFFITHS. She doesn't have to take any training, she doesn't have to go to school. In reality, this bill can be referred to as a reward for early marriage.

Mr. VENEMAN. Well, I think that you would have to really stretch an interpretation to suggest that, Mrs. Griffiths. That girl under the present system perhaps would not be required to go to school, and if she had a child, and she could be eligible for AFDC under the present system.

Mrs. GRIFFITHS. What you have said, now, is that if there is a young man in the situation you are going to pay him \$500, too.

Mr. VENEMAN. He would be entitled to the basic benefit.

Mrs. GRIFFITHS. He would be entitled to it.

Mr. VENEMAN. But he would also be required to accept a job training program or employment if it were available. So what has been done is the one thing that—disregarding age, whether it is 14, 16, or 18, or older—will keep a family unit intact. The present system lends itself to providing aid to family units that are not intact.

Mrs. GRIFFITHS. That is right and what you are trying to do is put a father in the home, but let me say to you I think terrible mistakes were made on welfare 30 years ago. I think that we have continued it for 30 years. I am for doing something, but I am not for jumping from the frying pan into the fire.

Now, your bill says that a child does not have to register for training. Later a child is described as an individual under 18. So that 14-year-old boy doesn't have to register for training and he doesn't have to go to school. What you have really done is to set up a marriage. You have encouraged a marriage, and the production of a child. And you are going to reward them for it, but what you have to look at is that the real bulge in all these births is between girls from 14 to 19 years of age. Here is where the great amount of illegitimacy is, is that not true?

Mr. VENEMAN. I think that is very true, that that is where the illegitimacy is. But I really don't think that the mental processes of those persons who are on public assistance go this way. I don't think that they are calculating it this way, at 14 years old. It is a sad commentary on our American social system if this is the case.

Mrs. GRIFFITHS. Don't tell me that. Let me give you one example. In the first place, many of these girls are the smartest girls in the class.

Mr. VENEMAN. I respect that. I learned that yesterday, Mrs. Griffiths.

Mrs. GRIFFITHS. A teacher told me that she had a very bright little girl in her class. She worked very hard with her. She was an illegitimate child. Her mother was drawing AFDC. The little girl became pregnant at about 13 and the teacher was absolutely sick. So she called the kid in and talked to her and said, "What are you going to do?"

And the kid said, "Why, I am going to get my own caseworker. That is what I am going to do."

And that is what you are going to do.

Mr. VENEMAN. Do you think that was the motivation for that little girl to become pregnant at 13? I just don't agree to that.

Mrs. GRIFFITHS. You have no protection in this bill against early marriage. You have no requirement that these kids continue to go to school.

Now, I gave the Secretary a situation yesterday where a young boy committed a murder.

Mr. VENEMAN. Right. I was present.

Mrs. GRIFFITHS. And the Secretary answered that this bill does nothing for that boy and I agree with him.

Mr. VENEMAN. Mrs. Griffiths, this bill directs itself primarily to income maintenance—to money payments. I don't think any of these circumstances that you have described are being hindered one way or the other by this proposal. You are talking primarily, I believe, to the social services aspects of public assistance programs. We are not changing in this bill anything that deals with social services. The Secretary in his opening testimony yesterday indicated that we are preparing social services amendments. That is really where you get at this problem.

You see, I just don't agree that this 13-year-old girl thinks about the welfare she is going to receive when she conceives at that age, and has an illegitimate child. I just don't accept that.

Mrs. GRIFFITHS. Well, I think your situation is hopeless. What you really haven't done is anything about people on welfare.

Mr. VENEMAN. Oh, we have.

Mrs. GRIFFITHS. As a matter of fact, what is your definition of a guaranteed annual income?

Mr. VENEMAN. A guaranteed annual income, I think, in the normal sense of the word, would be one that guaranteed every American, regardless of whether he is working, regardless of whether he has a family, a certain basic level of income. That isn't what this bill does.

Mrs. GRIFFITHS. But if you can't get work, this bill is going to give you the income, isn't it?

Mr. VENEMAN. We have that under our present system, Mrs. Griffiths.

Mrs. GRIFFITHS. That is right.

Mr. VENEMAN. But this bill also takes an extra step. It says that if you are capable of working you must take work.

Mrs. GRIFFITHS. You have reached now into the working poor, haven't you?

Mr. VENEMAN. That is correct.

Mrs. GRIFFITHS. So that for all practical purposes we have always had a guaranteed income and this bill is that, too, to a very great extent.

Mr. VENEMAN. I don't think so. I think the big distinction here is that the present system works just the opposite to the proper incentives. It is an incentive for a family to break up. It is an incentive not to take work. This bill turns the incentives in the right direction. The incentive is for the family to stay together, when you include the working poor, and there is also an incentive to take employment.

Mrs. GRIFFITHS. I think this bill encourages people to stay together. What I want to point out to you is that you are providing nothing in this bill to keep down early marriages.

Mr. VENEMAN. I don't think that that is the purpose of this bill, Mrs. Griffiths.

Mrs. GRIFFITHS. You better make it the purpose of this bill.

Mr. VENEMAN. We would be receptive to language that will stop early pregnancies. We will accept that right now.

Mrs. GRIFFITHS. Thirty years ago you were going to take care of widows with children. Therefore, you took care of mothers where there was not a father in the home and the result of this was that we drove the father out of the home.

Now, you are going to bring him back, and I agree with that.

Mr. VENEMAN. We are going to keep him there as well as bring him back.

Mrs. GRIFFITHS. I absolutely agree with that, but the thing that you are not doing is realizing that the illegitimate births are occurring where the girl is 14 and that you are putting forth an inducement for young children to marry.

The real question is should that be the public policy of this country?

Mr. VENEMAN. That is not the public policy of this country. Again, I think that you are trying to make this piece of legislation do something that it was not geared to do. We have a problem. We have a problem with illegitimacy. We have a problem with expanding population. We have a problem with large families in the low-income groups. We in Health, Education, and Welfare are directing ourselves to this problem in two or three ways. One of them is through the social services amendments to the Social Security Act, titles 4-A and 4-B. We are directing ourselves to this problem, and certainly the President showed a great deal of courage when he, for the first time for any President of the United States, pointed out that we do need family planning and population controls. This is the first time a President has given that kind of message. We have the responsibilities of encouraging family planning programs and we have increased our requests for this effort in this year's budget.

So I couldn't agree more, Mrs. Griffiths, that we have a problem. We have a problem with this age group and we have a problem with the low-income people, many of whom are on AFDC, and many of whom would be involved in family assistance, but we are talking about two different bills.

I would love someday to get your ideas on how we can better make our family planning programs work and better make our education system work among this group of people.

Mrs. GRIFFITHS. I have a bill in here to feed children in school three meals a day. What real objections do you have to that?

Mr. VENEMAN. No objections. I think every child should have three meals a day.

Mrs. GRIFFITHS. Then why don't you suggest it?

Mr. VENEMAN. We have the hunger and nutrition legislation up. The school lunch program would be under the Department of Agriculture according to Mr. Patricelli. I am not sure how far that program goes on school lunches; that is really the problem I have.

Mrs. GRIFFITHS. Let me point out to you that the big increase in AFDC between 1961 and 1967 was in illegitimacy.

Mr. VENEMAN. That is correct.

Mrs. GRIFFITHS. And the big increase in this is with mothers between 14 and 19; isn't that right?

Mr. VENEMAN. Percentage-wise, I think that that would be a significant area of increase.

Mrs. GRIFFITHS. Your bill is going to encourage the father to remain in the home.

Now, let me tell you once again I agree with it, but I don't agree with your setting up such youthful households and not requiring that they go to school.

My bill, which would have given children meals in schools, would have fed them there and might have cut down on some of this.

Mr. VENEMAN. Mrs. Griffiths, I am not sure that those of us with Federal responsibilities have reached the point where we want to write into the Social Security Act educational requirements that have traditionally been the States' responsibility. Do we want to interfere with States' rights to the extent that we will write in a welfare bill that you have to go to school until you are 16 or 18 years old?

Mrs. GRIFFITHS. Don't talk about that. Why don't you give them some money for going to school?

Mr. VENEMAN. I think this is a responsibility that the States have to enforce the law to require them to go to school until a certain age.

Mrs. GRIFFITHS. If you are going to give them money for training, why don't you give them money for going to school?

Mr. VENEMAN. We do, as I indicated. You do not only have the disregard for the wage earner written into the legislation, you also permit a student that is going to school to retain any earnings that he makes in part-time work.

Mrs. GRIFFITHS. Why don't you pay him? Why don't you pay the father of these young children and the mother, to go to school?

Mr. VENEMAN. You mean a father and the mother if they get in the work program?

We essentially do, with the training allowance.

Mrs. GRIFFITHS. What can a 14-year-old mother offer these children?

Mr. VENEMAN. I think it is a question of degree. We do pay through the training allowance, Mrs. Griffiths.

Mrs. GRIFFITHS. And the training allowance can't be in a high school; can it? You are not requiring that they complete their education.

Mr. VENEMAN. As Secretary Shultz has indicated, a good majority of those persons that participated in the WIN program did so on a voluntary basis. I believe that many of these young people who are

below the age of 18 and who find themselves with a family would probably be the first ones to volunteer for a training program or an upgrading program of some kind. We have programs in practically every community, through vocational education, through the elementary and secondary education programs, to try to upgrade those with less ability than others, and for the most part most of these children do participate in these programs.

I don't see how this bill can detract from any of your objectives. It just adds to them.

Mrs. GRIFFITHS. Mr. Secretary, the real problem is that nobody has thought about what the effect of this bill is going to be.

Mr. VENEMAN. Oh, yes.

Mrs. GRIFFITHS. What is it going to do to family formation?

Mr. VENEMAN. We have thought very, very seriously and at length of what the effect of this will be.

Mrs. GRIFFITHS. And who are going to be the people forming these families?

Mr. Secretary, there are some 30 or so places in the welfare bill where the Secretary is given authority to decide policy and issue regulations. Many of these policies seem to me to be too important to leave to regulatory power.

Would you submit for the record some indication of what your regulation might be in each case in the bill where the Secretary is either to issue regulations, set criteria, or that sort of thing?

Mr. VENEMAN. I think we could arrange to do that.

(The information referred to was not available at time of printing.)

Mrs. GRIFFITHS. Would you give what the reasonable range of possibilities are in each case? I am sure that would be most helpful to the committee in trying to determine just what this bill would do and how much it would cost.

But, right now, I would like to have you discuss a few of the more important decisions which would be left to the Secretary. Under the bill, the Federal Government pays 100 percent of the first \$50 of average adult payments, 50 percent of the next \$15, and 25 percent above \$65 up to an amount set by the Secretary. You could set the upper limit at \$66 or \$366, or even higher. Where would you set it and why?

Mr. VENEMAN. We have not made a decision on that point.

Mr. Patricelli, would you like to speak to that point?

Mr. PATRICELLI. We do have the authority, as you point out, to set a ceiling on the Federal matching at the top of the 25 percent range. We have not thought out what that ceiling would be, but I think it would be in line with various Government indexes like the poverty line or the eligibility provisions for food stamps or medicaid. We would not want the adult category programs, it seems to me, to be giving benefits at points of income beyond the usual Government practice.

Mrs. GRIFFITHS. Under present law the States set their own definition of the terms "blindness" and "disability" under their adult assistance programs. Under the bill the Federal Government would define these terms, and they would be binding on the States.

Will your definitions of these terms be as liberal as the most liberal State definitions of these terms now in existence?

Mr. VENEMAN. I would not anticipate that they would be the most liberal, Mrs. Griffiths. I would anticipate they would be in some medi-

um range. But I would suggest that perhaps Miss Switzer or Mr. Hawkins from SRS, who have been involved in this, could answer that question.

We have the basic standard now for both the definition of "disability" and for the definition of "blindness."

Mrs. GRIFFITHS. What is that?

Mr. HAWKINS. Can we supply our handbook material on this for the record, Mrs. Griffiths?

(The document referred to follows:)

HANDBOOK OF PUBLIC ASSISTANCE ADMINISTRATION SUPPLEMENT D MEDICAL ASSISTANCE PROGRAMS

D-4700 BLINDNESS, JUNE 17, 1966

D-4700. *Blindness*

D-4710. *Provisions of the Act*

Section 1902(a) of the Social Security Act reads as follows:

"A State plan for medical assistance must— . . .

"(12) provide that, in determining whether an individual is blind, there shall be an examination by a physician skilled in the diseases of the eye or by an optometrist, whichever the individual may select;"

D-4720. *Requirements for State Plan*

A State plan for medical assistance must:

1. Contain a definition of blindness in terms of ophthalmic measurement.
2. Provide that, in any instance in which a determination is to be made whether an individual is blind according to the State's definition, there will be an examination by a physician skilled in the diseases of the eye or by an optometrist, whichever the individual may select.
3. Provide that each eye examination report form will be reviewed by a State supervising ophthalmologist who is responsible for the agency's decision that the applicant does or does not meet the State's definition of blindness.

D-4730. *Criteria for the Administration of the Plan*

1. A uniform eye examination report form which provides adequate visual findings for a determination of blindness is used.

2. Uniform procedures, including the following, are used in determining whether an individual is blind:

a. A signed and dated current eye examination report form by an approved examiner is used for each application and re-examination, a copy of which is available in the State agency. When both eyes are missing, no examination is necessary.

b. State agency policies and procedures contain a definition of blindness which is applicable for all categorically needy and medically needy blind.

The recommended Federal definition of blindness is in terms of ophthalmic measurement, central visual acuity of 20/200 or less in the better eye with correcting glasses or a field defect in which the peripheral field has contracted to such an extent that the widest diameter of visual field subtends an angular distance greater than 20 degrees.

If the State's definition is not as broad as the recommended Federal definition, the one used in title X or XVI is used for title XIX.

c. The State supervising ophthalmologist is responsible for setting dates of reexaminations and reviewing these reexamination report forms to determine whether blind recipients, whose visual condition may improve, continue to meet the State's definition of blindness.

D-4740. Federal Financial Participation

Assistance Payments.—The State may claim Federal financial participation for medical assistance for any otherwise eligible person who is determined to be blind in accordance with the approved plan for medical assistance. Blindness may be considered as continuing until an examination by a qualified examiner establishes the fact that the recipient's vision has improved beyond the State's definition of blindness. In cases where blindness is being overcome, Federal financial participation may be claimed during a specified temporary recovery and adjustment period, as defined in the State's policies and procedures.

Administrative Expenses.—Any expenditures incident to the eye examination necessary to determine who is a blind individual may be considered an administrative expense of the agency.

D-4800 PERMANENT AND TOTAL DISABILITY, JUNE 17, 1966

D-4800. Permanent and Total Disability**D-4810. Provisions of the Act.**

Section 1902(a) of the Social Security Act reads as follows:
"A State plan for medical assistance must— . . .

"(4) provide such methods of administration . . . as are found by the Secretary to be necessary for the proper and efficient operation of the plan;"

D-4820. Requirements for State Plan

A State plan for medical assistance must:

1. Contain a definition of permanently and totally disabled, showing that:

a. Permanently is related to the duration of the impairment or combination of impairments; and

b. Totally is related to the degree of disability.

2. Provide for the review of each medical report form and social history by technically competent persons—not less than a physician and a social worker qualified by professional training and pertinent experience—acting cooperatively, who are responsible for the agency's decision that the applicant does or does not meet the State's definition of permanent and total disability.

D-4830. Criteria for the Administration of the Plan

1. State agency policies and procedures contain a definition of permanently and totally disabled, which is applicable for all categorically needy and medically needy permanently and totally disabled.

The Federal definition of permanent and total disability is some permanent physical or mental impairment, disease or loss, or combination thereof, that substantially precludes the individual from engaging in useful occupations within his competence, such as holding a job or homemaking.

If the State's definition is not as broad as the recommended Federal definitions, the one used in title XIV or XVI is used for title XIX.

2. Uniform procedures, including the following, are used in determining whether an individual is permanently and totally disabled:

a. A signed and dated current medical examination report form from an approved examiner is used for each application and reexamination, a copy of which is available in the State agency. The medical findings are adequate to determine whether or not the individual is permanently disabled, according to the State's definition.

b. Except for the completely helpless, a corresponding social history is developed, adequate to determine whether or not the individual is totally disabled according to the State's definition.

c. The review physician is responsible for setting dates of reexamination and, with other team members, for reviewing reexamination reports in conjunction with social data, to determine whether disabled recipients whose health conditions may improve, continue to meet the State's definition of permanent and total disability.

D-4840. *Federal Financial Participation*

Assistant Payments.—The State may claim Federal financial participation for medical assistance for any otherwise eligible person who is determined to be permanently and totally disabled in accordance with the approved plan for medical assistance, and within the Federal definition. Permanent and total disability may be considered as continuing until the review team establishes the fact that the recipient's disability is no longer within the State's definition of permanent and total disability. In cases where this disability is being overcome, Federal financial participation may be claimed during a specified temporary recovery and adjustment period, as defined in the State's policies and procedures.

Administrative Expenses.—Any expenditures incident to the medical examination necessary to determine who is a permanently and totally disabled individual may be considered an administrative expense of the agency.

Mrs. GRIFFITHS. Yes.

Mr. HAWKINS. It is a fairly detailed description of what a State may do. Now they are not uniform in all States.

Mrs. GRIFFITHS. No, they are not uniform. For instance—I believe that Delaware's is visual acuity of 20/200 or less and/or a limitation of the visual field at 20 degrees or less in the better eye with corrections. In the District of Columbia it is central visual acuity of 20/200 or less in the better eye with correcting lenses, or peripheral field loss in which visual field efficiency reduced to 30 percent or less or certain other ocular conditions which constitute severe visual handicaps.

Mr. VENEMAN. Do you have also in that document, Mrs. Griffiths, what our basic requirements are?

Mrs. GRIFFITHS. No, I don't.

Mr. HAWKINS. I believe, Mrs. Griffiths, that all but two States use the 20-over-200 central visual acuity. There are different peripheral visions, and the States of Pennsylvania and Missouri have, or have had until recently at least, lower, more restrictive definitions of central visual acuity. One, I believe, was 5/200ths, and the other was 10/200ths.

Mrs. GRIFFITHS. In applying the limitation on how much a family can have in the way of resources and still be eligible for assistance, the bill says that the Secretary is to decide when a family can keep income-producing property and when they have to sell the property. What is your present thinking on how these regulations might work?

Mr. VENEMAN. I think that there has to be a certain amount of individual attention given to these kinds of cases where you are involved in income-producing property. For example, if you just said all income-producing property has to be disposed of before you are eligible, then, of course, you could probably take away a very small investment on the part of some aged couple who had a small house in the back of their lot that they were renting out.

Mrs. GRIFFITHS. If you let it go individual-case-by-individual-case you are going to end up in the situation of the appeal now to the Supreme Court on murder.

Mr. VENEMAN. On what?

Mrs. GRIFFITHS. On murder, that is, you pick out the people you want to execute and you let the others off. So you can't really let it go individual-case-by-individual-case. You have to have some guidelines.

Mr. VENEMAN. I believe we have some discrepancy in that area at the present time under the present Code, don't we?

Mr. HAWKINS. Income-producing property is now a matter handled according to State plan, and there are various provisions in the individual State plans on it.

Mrs. GRIFFITHS. Which State plan are you going to adopt?

Mr. HAWKINS. I am not sure it would be any existing State plan. There are limitations. Here there is a uniform amount of \$1,500 of property that one can have plus home, household goods, personal effects, and the items which the Secretary finds actually contribute to employability.

Now, certainly there would have to be regulations on that score written.

Mrs. GRIFFITHS. Mr. Secretary, as I read the welfare bill, it would be possible for a State to get out of the welfare business. It could put up its share of any supplemental payments to families and its share of payments to adult recipients and turn it all over to the Federal Government. It would also be possible for the State to then withdraw from the social-services part of the program for families and thereby avoid having anything to do with the programs, the things which were designed to help people get off welfare or never come on.

If this happens, isn't the welfare problem merely going to get worse rather than better with the Federal Government bearing the resulting full burden?

Mr. VENEMAN. No, I think if this should happen—I can't conceive of very many states getting out of the social services or the other provisions of the Social Security Act—and that includes public assistance. But I think the same thing occurs when a vacuum is created; somebody else moves in, and presumably the next level of government, being the Federal Government would provide for the services that would have to go along with the assistance payments.

Mrs. GRIFFITHS. Then you anticipate that, while you suggest today that the cost of this bill is \$4 billion, it could grow tremendously because we take over additional services under welfare. Is that right?

Mr. VENEMAN. As I say, I don't conceive of that happening. I think Mr. Patricelli has a comment.

Mr. LANDRUM. Would you yield?

Mrs. GRIFFITHS. Yes.

Mr. LANDRUM. At the time the President disclosed this program to the Nation, there followed immediately on national television a group of persons evaluating that program. Among them was Mr. Finch's predecessor, who said at that time that the estimated cost of \$4 billion was about one-third of what it would reasonably cost. He thought it would cost about \$14 billion.

Would you think that that would be more like the cost of the program?

Mr. VENEMAN. No; I do not, Mr. Landrum. I am not sure just whom Mr. Cohen uses for his actuaries at this particular point.

Mr. LANDRUM. You recall that he said that, though?

Mr. VENEMAN. I feel that the basis upon which these figures were developed, and, if you recall from the Secretary's testimony yesterday morning, they were not done solely by Health, Education, and Welfare—

Mr. LANDRUM. If the gentlewoman would continue to yield for a moment, you do recall that Mr. Cohen, former Secretary, said that following the program?

Mr. VENEMAN. What Mr. Cohen said was that he was talking about a reasonable program which would be an all-inclusive guaranteed annual income program, and that is about the figure that we talk about when we talk about putting a guaranteed annual income up to the poverty level. It is about \$14 billion.

Mr. LANDRUM. A very substantial part of this proposal——

Mr. VENEMAN. We are not suggesting that.

Mr. LANDRUM (continuing). Has been advocated by Mr. Cohen. Isn't that true?

Mr. VENEMAN. The concept, I think, has been advocated by previous administrations.

Mrs. GRIFFITHS. What percentage of the money that is paid out now for child care goes to babysitters?

Mr. VENEMAN. What percentage of the child care money goes to babysitters?

Mrs. GRIFFITHS. Yes.

Mr. VENEMAN. Mr. Sugarman, I think, can answer that.

Mrs. GRIFFITHS. And how much is it actually? How much money is being paid for babysitters?

Mr. VENEMAN. Mr. Jule Sugarman, the Acting Chief of the Children's Bureau and Office of Child Development, will answer that.

Mr. SUGARMAN. I believe, Mrs. Griffiths, that the most relevant figures would be those under the work-incentive program. During fiscal 1969, when that program was just beginning, there were about \$4.7 million spent for child care. Of that amount we believe that about 60 percent was spent for child care outside the home and about 40 percent for inhome care.

Inhome care would largely be babysitting care.

Mrs. GRIFFITHS. How much has it gone up?

Mr. SUGARMAN. Well, that would all be net additional expenditures over the prior fiscal year, because WIN was a new program in that year.

Mrs. GRIFFITHS. Can you pick out any one State and show this committee month-by-month how the baby care cost has gone up?

Mr. SUGARMAN. Yes; we could.

Mrs. GRIFFITHS. Will you supply it for the record?

Mr. SUGARMAN. I would be happy to. I would say that as a general picture that most States began their child care programs with inhome or babysitting care and have only recently begun to move toward group care or family day care.

(The information to be supplied follows:)

MONTH-BY-MONTH EXPENDITURE FOR CHILD CARE UNDER THE WIN PROGRAM IN THE STATE OF MARYLAND

Month	Total expenditure	Total children served
September 1968.....	\$12,238 (85 percent Federal—15 percent State).....	1,024
October 1968.....	\$12,906 (85 percent Federal—15 percent State).....	1,121
November 1968.....	\$15,532 (85 percent Federal—15 percent State).....	1,295
December 1968.....	\$17,724 (85 percent Federal—15 percent State).....	1,355
January 1969.....	\$23,532 (85 percent Federal—15 percent State).....	1,682
February 1969.....	\$28,816 (85 percent Federal—15 percent State).....	1,982
March 1969.....	\$37,462 (85 percent Federal—15 percent State).....	2,400
April 1969.....	\$44,608 (85 percent Federal—15 percent State).....	2,489
May 1969.....	\$46,193 (85 percent Federal—15 percent State).....	2,545
June 1969.....	\$45,370 (85 percent Federal—15 percent State).....	2,493
July 1969.....	\$48,454 (75 percent Federal—25 percent State).....	2,630
August 1969.....	\$54,760 (75 percent Federal—25 percent State).....	2,610

(The following information was also supplied for the record:)

STANDARDS AND COSTS FOR DAY CARE

NOTES

A. This analysis is divided into three parts representing distinct types of day care situations:

- (1) Care in a center for the full day;
- (2) Care in a foster home for the full day; and
- (3) Care in a center before and after school and during the summer.

There are many possible variations in the use of those three types, but most commonly, group one is used for children 3-6, group two for children under three and group three for children of school age (up to 14).

B. Costs can vary enormously depending on the areas of the country being served. For example, Federal agencies report a range of \$1,000 to \$1,900 for the same type of program in various parts of the nation. These variations reflect difference in salary and cost levels as well as differences in the kinds of services generally available to a child (e.g., the existence or non-existence of a Medicaid program). In the analysis most of the costs are based on Head Start experience with day care programs of the group one type. It should be remembered that Head Start programs generally have 10-20% of their costs covered by non-Federal contributions which may or may not be available to Social Security Day Care programs.

C. The analysis projects standards at three different levels of quality: (1) minimum, (2) acceptable and (3) desirable. "Minimum" is defined as the level essential to maintaining the health and safety of the child, but with relatively little attention to his developmental needs. "Acceptable" is defined to include a basic program of developmental activities as well as providing minimum custodial care. "Desirable" is defined to include the full range of general and specialized developmental activities suitable to *individualized* development. Individual experts will differ as to the elements required for each level of quality. Most experts feel that the disadvantages to children of a "minimum" level program far outweigh the advantages of having the mother work. Some will feel that for children from "disadvantaged" homes only the "desirable" level is appropriate. The figures shown represent a consensus among a number of experts of what would be required at each level of quality.

D. The costs shown are potentially reducible by the availability of free space or transportation and by the availability of services such as medical care through other funding sources. Fees paid by the parents will also reduce costs. Under the Social Security legislation, 25% of the cost is provided through state funds so the Federal cost in net may be 60-70% of the totals shown.

TABLE I.—STANDARDS AND COSTS OF DAY CARE—COMPARATIVE SUMMARY AND ESTIMATE OF NATIONAL COSTS

	Total cost per child			Number of Children	National costs (in millions)		
	Minimum	Acceptable	Desirable		Minimum	Acceptable	Desirable
Group day care (generally used for 3- to 5-year-olds).....	\$1,245	\$1,862	\$2,320	600,000	\$747	\$1,117	\$1,392
Foster day care (generally used for children under 3).....	1,423	2,032	2,372	600,000	854	1,219	1,423
Before and after school and summer care (generally used for children 6 to 13).....	310	653	653	2,800,000	868	1,828	1,828
Total.....					2,469	4,164	4,643
Estimated Federal cost ¹					(\$1,481-\$1,728)	(\$2,498-\$2,915)	(\$2,786-\$3,250)

Note: Figures based on families with incomes under \$5,000 who appear to need day care. No one knows how many of these are actually on welfare.

¹ See par. D in introduction.

TABLE II.—STANDARDS AND COSTS OF DAY CARE FOR A FULL DAY IN A CENTER—1967

Program element	Levels of quality			
	Minimum		Desirable	
	Description	Annual cost per child	Description	Annual cost per child
1. Food, meals and snacks.....	1 meal and snacks.....	\$140	2 meals and snacks.....	\$210
2. Transportation.....	Provided at parent expense.....		Provided by center.....	60
3. Medical and dental services.....	Examinations and referral services.....	20	Examinations and referral services.....	20
4. Work with parents.....	Little or none except on problem cases.....	10	General parent activities plus limited counseling services.....	30
5. Facilities and utilities (rental).....	Space meeting State and local licensing requirements.....	90	Same.....	90
6. Clothing and other emergency needs.....	As necessary.....	20	As necessary.....	20
7. Supplies and materials.....	Custodial program.....	40	General developmental program.....	50
8. Equipment (annual replacement costs).....	do.....	10	do.....	12
9. Staff:				
(a) Classroom, professional, at \$6,600.....	1 per 20 children.....	275	1 per 15 children.....	405
(b) Classroom, nonprofessional, at \$4,400.....	2 per 20 children.....	320	2 per 15 children.....	420
(c) Social service, professional, at \$6,600.....	1 per 150 children.....	65	1 per 100 children.....	65
(d) Community, social service, parent or health aides, at \$4,400.....	None.....		do.....	20
(e) Business and maintenance, at \$4,000.....	2 per 100 children.....	80	3 per 100 children.....	120
(f) Special resource personnel (psychology, music, art, consultants, etc.), at \$6,600.....	Urgent need only.....	20	1 per 100 children.....	60
(g) Supervision, at \$8,000.....	1 per 100 children.....	80	2 per 100 children.....	160
10. Training.....	Approximately 10 percent of salary costs.....	75	Approximately 10 percent of salary costs.....	120
Total per child.....		1,245		1,862
Estimated Federal cost (in millions).....		747-872		1,117-1,303
				2,320
				1,392-1,264

Note: This analysis is based on centers providing service 10 to 12 hours a day, 5 days a week.

TABLE III.—STANDARDS AND COSTS OF DAY CARE IN A FOSTER DAY CARE SITUATION—1967

Program element	Levels of quality			
	Minimum	Acceptable		Desirable
	Description	Annual cost per child	Description	Annual cost per child
1. Food, meals and snacks.....	1 meal and snacks.....	\$100	2 meals and snacks.....	\$150
2. Transportation.....	Parents responsible.....		Parents responsible.....	
3. Medical and dental services.....	Examination and referral services.....	20	Examination and referral services.....	20
4. Work with parents.....	Little or none except on problem cases.....	10	General parent activities plus limited counseling services.....	30
5. Facilities and utilities (rental).....	Special maintenance allowance in lieu of rent plus central administrative space.....	30	Same.....	30
6. Clothing and other emergency needs.....	As necessary.....	20	As necessary.....	20
7. Supplies and materials.....	Limited development.....	20	Developmental program.....	35
8. Equipment (annual replacement costs).....	do.....	9	do.....	15
9. Staff:				
(a) Day care mother, at \$4,400.....	1 per 5 children.....	880	1 per 4 children.....	1,100
(b) Social service professional, at \$6,600.....	1 per 150 children.....	44	1 per 100 children.....	66
(c) Community, social service, parent, or health aides at \$4,400.....	None.....		do.....	44
(d) Business at \$4,000.....	2 per 100 children.....	80	2 per 100 children.....	80
(e) Special resource personnel (psychology, music, art, consultants, etc.) at \$6,600.....	Urgent needs only.....	20	do.....	264
(f) Supervision at \$8,000.....	1 per 100 children.....	80	3 per 100 children.....	240
10. Training.....	Approximately 10 percent of salary costs.....	110	Approximately 10 percent of salary costs.....	150
Total.....		1,423		2,372
Estimated Federal cost.....		854-996		1,219-1,422
				1,423-1,660

Note: This analysis is based on providing service 10 to 12 hours a day, 5 days a week.

TABLE IV.—STANDARDS AND COSTS OF DAY CARE FOR BEFORE AND AFTER SCHOOL AND SUMMER CARE—1967

Program element	Minimum			Acceptable			Levels of quality	
	Description	Annual cost per child	Description	Annual cost per child	Description	Annual cost per child	Desirable	
DURING SCHOOL MONTHS (40 WEEKS)								
1. Food, meals and snacks.	Snack.	\$30	Snack and breakfast.	\$70	Snack and breakfast.	\$70	Annual cost per child	
2. Work with parents.	Urgent only.	10	Supplementary to school services.	20	Supplementary to school services.	20		
3. Facilities.	Assume use of school or other nonrent facilities.	10	Same.	10	Same.	10	10	
4. Supplies and materials.	Custodial.	20	Developmental.	40	Developmental.	40	40	
5. Equipment (annual replacement costs).	do.	10	do.	15	do.	15	15	
6. Personnel:								
(a) Day care workers at \$4,400.	1 per 25 children for 3 hours.	53	1 per 15 children for 3 hours.	88	1 per 15 children for 3 hours.	88	88	
(b) Special resource personnel at \$6,600.	None.	1	1 per 45.	66	1 per 45.	66	66	
(c) Business at \$4,000.	1 per 250 children.	12	1 per 250 children.	12	1 per 250 children.	12	12	
(d) Supervision at \$8,000.	do.	24	2 per 250 children.	24	2 per 250 children.	24	24	
7. Training.		9		28		28	28	
SUMMER PERIOD (12-WEEKS)								
1. Food, meals and snacks.	Snacks and 1 meal.	35	Snacks and 2 meals.	50	Snacks and 2 meals.	50	50	
2. Work with parents.	Urgent only.	5	Supplementary to school services.	15	Supplementary to school services.	15	15	
3. Facilities.	Assume use of school or other nonrent facilities.	20	Same.	20	Same.	20	20	
4. Supplies and materials.	Custodial.	10	Developmental.	15	Developmental.	15	15	
5. Equipment (annual replacement costs).	do.	5	do.	10	do.	10	10	
6. Personnel:								
(a) Recreation supervisors at \$4,400.	1 per 25 children (8 hours per day).	40	1 per 15 children (8 hours per day).	65	1 per 15 children (8 hours per day).	65	65	
(b) Special resource personnel at \$6,600.	None.	1	1 per 30 children.	55	1 per 30 children.	55	55	
(c) Business at \$4,000.	1 per 250 children.	4	1 per 250 children.	4	1 per 250 children.	4	4	
(d) Supervision at \$8,000.	do.	8	3 per 250 children.	24	3 per 250 children.	24	24	
7. Training.	Approximately 10 percent of salaries.	5	Approximately 15 percent of salaries.	22	Approximately 15 percent of salaries.	22	22	
Total.		310		653		653	653	
Estimated Federal costs.		186-215		392-458		392-458	392-458	

Mrs. GRIFFITHS. Does every State have within its plan babysitters?

Mr. SUGARMAN. I cannot answer that question.

Mr. VENEMAN. Some States have not had the WIN program in effect for a full fiscal year.

Mrs. GRIFFITHS. Do all the States that have the WIN program have babysitters in their plan for child care?

Mr. SUGARMAN. I would have to check the record on that. My impression is that all do not, that some have family daycare or group care.

(The records referred to follow:)

CHILD-CARE COSTS UNDER WIN, FISCAL YEAR 1969

State	Total	Estimated maximum number of children receiving—			estimate of total Federal cost	HEW tentative reservations
		Preschool care	After-school care	In home care		
All States.....	94,748	32,024	28,818	33,906	\$11,807,542 ¹	\$17,500,000
Alabama.....	1,500	149	76	1,275	240,137	227,500
Alaska.....	713	125	122	466	104,550	105,500
Arizona.....	2,400	1,800	600	0	246,925	350,000
California.....	850	320	130	400	331,670	2,362,500
Colorado.....	1,060	159	318	583	86,785	192,500
Connecticut.....	13,200	5,412	5,280	2,503	272,850	192,500
District of Columbia.....	963	963	0	0	245,907	245,000
Hawaii.....	40	5	5	30	2,437	70,000
Illinois.....	533	0	200	333	214,200	875,000
Iowa.....	500	200	100	200	127,500	210,000
Kansas.....	3,800	750	380	2,670	681,289	140,000
Kentucky.....	3,800	750	380	2,670	681,289	595,000
Louisiana.....	570	100	345	125	140,000	140,000
Maine.....	40	8	0	32	21,250	87,500
Maryland.....	6,156	1,500	1,695	2,961	438,107	437,500
Massachusetts.....	2,340	468	116	1,756	918,000	577,500
Michigan.....	2,400	1,800	600	0	246,925	980,000
Minnesota.....	0	0	0	0	0	297,500
Mississippi.....	640	260	380	0	55,352	0
Missouri.....	3,810	1,334	1,535	941	391,189	542,500
Montana.....	375	186	189	0	18,675	122,500
New Jersey.....	2,600	530	1,070	1,000	418,200	770,000
New York.....	7,857	3,925	1,520	2,412	2,455,523	2,362,500
North Dakota.....	54	4	20	30	26,639	87,500
Ohio.....	20,243	5,409	8,086	6,748	730,978	875,000
Pennsylvania.....	6,546	1,907	2,043	2,596	708,425	1,102,500
Puerto Rico.....	1,578	285	450	843	206,019	945,000
Rhode Island.....	675	350	250	75	180,200	210,000
South Dakota.....	40	8	0	32	21,250	122,500
Tennessee.....	2,400	1,800	600	0	246,925	367,500
Utah.....	250	50	100	100	34,706	157,500
Virginia.....	2,795	419	1,212	1,164	463,675	245,000
Vermont.....	500	60	60	380	4,643	70,000
Washington.....	687	68	69	550	131,552	367,500
West Virginia.....	800	150	375	275	164,934	577,500
Wisconsin.....	1,280	640	385	255	441,849	367,500
Wyoming.....	713	125	122	466	104,550	35,000
Guam.....	40	5	5	30	2,437	35,000

¹ Actual expenditure, fiscal year 1969, \$3,582,797 (Federal share):

State:	Expenditure	State—Continued	Expenditure	State—Continued	Expenditure
Alabama.....	\$83,331	Louisiana.....	\$61,233	Oregon.....	0
Alaska.....	42,000	Maine.....	7,500	Pennsylvania.....	\$200,000
Arizona.....	42,893	Maryland.....	264,636	Puerto Rico.....	69,001
Arkansas.....	0	Massachusetts.....	172,500	Rhode Island.....	0
California.....	87,900	Michigan.....	951,438	South Carolina.....	0
Colorado.....	48,597	Minnesota.....	0	South Dakota.....	6,048
Connecticut.....	117,769	Mississippi.....	2,473	Tennessee.....	192,178
Delaware.....	0	Missouri.....	214,752	Texas.....	0
District of Columbia.....	166,782	Montana.....	24,621	Utah.....	29,556
Florida.....	0	Nebraska.....	0	Vermont.....	3,000
Georgia.....	0	Nevada.....	0	Virgin Islands.....	12,000
Guam.....	0	New Hampshire.....	0	Virginia.....	0
Hawaii.....	588	New Jersey.....	137,969	Washington.....	280,279
Idaho.....	0	New Mexico.....	0	West Virginia.....	0
Illinois.....	0	New York.....	30,669	Wisconsin.....	36,139
Indiana.....	0	North Carolina.....	0	Wyoming.....	5,000
Iowa.....	32,500	North Dakota.....	11,179		
Kansas.....	35,000	Ohio.....	45,903	Total.....	3,582,797
Kentucky.....	167,369	Oklahoma.....	0		

EXISTING GOVERNMENT PROGRAMS WHICH MAY PROVIDE FUNDS FOR DAYCARE RELATED PURPOSES

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Social Security and Rehabilitation Service.—Social Security Act, Title IV (A), as amended in 1967: child care services *must* be furnished to parents enrolled by the Labor Dept. in the extended, at state option, to former and potential AFDC beneficiaries. States have difficulty raising matching funds for mandatory portion and very few have exercised their option to extend coverage. Federal funds: 75% may be used for minor remodeling but not construction or major renovation. Federal appropriations for FY 1969 were \$462 million.

Day Care Services.—Social Security Act, Title IV (B), as amended in 1967: grants-in-aid to State public welfare agencies for child welfare services, including provision of day care services. Each state is allotted \$70,000 and remainder of appropriation is allotted on variable matching formula basis. Funds thus far have been utilized mainly at State Department level to set up day care administrative machinery, and little has gone for actual day care services. Funds may be used for minor remodeling but not for construction.

Federal appropriations for FY 1969 were \$46 million, \$3 million for actual day care.

Research and Demonstration Projects.—Social Security Act, Title IV (B), as amended in 1967: grants to public or other nonprofit institutions of higher learning or engaged in research or child welfare activities, but not to individuals. At present, priority is being given to proposals for projects related to child welfare services provided by social welfare agencies, including better ways to deliver these services.

Training Projects.—Social Security Act, Title IV (B): grants to public or other nonprofit institutions of higher learning for special projects for training personnel for work in the field of child welfare, including care. Grants may be used for teaching grants, traineeships, or short-term training activities for periods of up to five years.

Preventive Services.—Juvenile Delinquency Prevention and Control Act of 1968, Title I (C): grants to any local public agency or nonprofit private agency to promote the use of community-based services for the prevention of juvenile delinquency and to assist in development of special preventive services, such as the provision of day care services within the framework of larger programs providing educational and/or vocational training to unwed mothers or the establishment of day care facilities as part of a youth-operated service program.

Training.—Juvenile Delinquency Prevention and Control Act of 1968, Title II: grants to public or private nonprofit agencies for training personnel employed in fields related to the diagnosis, or treatment of youth who are, or in danger of becoming, delinquent. Programs might focus on training youth for employment in various human service fields including day care.

Improved Techniques and Practices.—Juvenile Delinquency Prevention and Control Act of 1968, Title III: grants or contracts to public or private agencies to develop improved techniques and practices which help prevent juvenile delinquency or rehabilitate delinquency youth. Experimental programs might include provision of day care services for children of mothers engaged in the larger programs and the employment of nonprofessionals in day care facilities.

OFFICE OF EDUCATION

Educationally Deprived Children in Low-Income Areas, Elementary and Secondary Education Act of 1965, Title I: grants for projects of local educational agencies which are designed to meet the needs of educationally deprived children, including those of preschool age. Funds may be used to add educational components to AFDC day care centers already established. States receive funds according to a formula.

The FY 1968, 746,000 children were served in full day programs at a cost of over \$42 million.

Supplementary Centers and Services.—Elementary and Secondary Education Act of 1965, Title III: grants to local school districts to seek creative solutions to their educational problems, including new approaches to early childhood education.

There are 61 projects serving an estimated 40,000 preschool children at a cost of \$3.1 million.

Research, Surveys, Demonstrations, and Dissemination.—Cooperative Research Act, as amended by Title IV, ESEA of 1965: Awards to universities and colleges and other public or private nonprofit agencies, and individuals for research and demonstrations in the field of education and dissemination of results. Includes early childhood education. Grants are for up to 95% of costs.

Vocational Education in Home Economics.—Vocational Education Act of 1963, Title I (A): grants to state boards for vocational education programs in occupations involving knowledge and skills in home economics—may include training of aides and assistants at day care centers.

Research, Experimentation, Development.—Vocational Education Act of 1963 Title I (C): Allotments to states for research, experimental programs, demonstration projects and development of new vocational curricula and of new careers and occupations in such fields as child care.

Work-Study Programs.—Higher Education Act of 1965, Title IV (C): grants to institutions of higher education to operate their work-study programs which may include placing the college students for up to 15 hrs. per week as aides in day care centers.

Educational Personnel Development Grants.—Higher Education Act of 1964, Title V, as amended by PL 90-35: awards to colleges and universities and state and local education agencies for training programs to improve and qualifications of persons serving in education programs—including preschool programs.

PUBLIC HEALTH SERVICE

Migrant Health.—Migrant Health Act of 1962, as amended: grants to public and to nonprofit agencies for family health service clinics for migratory workers and for other activities to improve their health services—this may cover support for health services for migrant children in day care centers.

Research Demonstration, Pilot Projects.—PL 78-410, as amended. Grants to investigators in universities, colleges, hospitals, or research institutions for research which may include projects relating to day care centers.

Experimental and Special Training Projects.—PL 79-487: Grants to eligible training settings for experimental projects for, among others, the development of training programs for persons whose roles may be related to mental health disciplines — this may include personnel in day care centers.

Mental Health Continuing Education Programs.—PL 79-487, as amended: grants to public or private nonprofit institutions for projects to develop continuing education in the area of mental health, including child care.

Mental Health Facilities.—Community Mental Health Centers Construction Act of 1963, as amended: grants for construction, renovation or acquisition of community mental health center facilities — a child day care center may be part of a mental health center.

Mental Health Centers Staffing.—Community Mental Health Centers Construction Act of 1963, as amended: grants for the initial support of professional and technical personnel in community mental health centers—a child care center may be part of a mental health center.

(Note: For the four mental health programs above, estimated federal expenditures for FY 1968 in the child care area are \$1 million.)

OFFICE OF CHILD DEVELOPMENT

Parent and Child Center Programs.—Economic Opportunity Act, Title II. A pilot effort launched in FY 1968 by the Office of Economic Opportunity to provide community action and other agencies with grants for the planning and development of parent and child centers for disadvantaged families with at least one child under three years of age. It offers many services similar to those now offered in the Headstart program to children aged 3-6, and plans to offer day care and nursery services for children and educational, recreational, health and counseling services for their parents.

It is estimated that about \$5 million was spent for parent and child centers on an experimental basis in 1968, serving 3600 families.

Head Start Programs.—Economic Opportunity Act of 1964, Title II-A, as amended: grants to public or private nonprofit agencies, usually the community action agency, for projects which may include full day Headstart centers for 3, 4, and 5 year olds. Federal funds may provide up to 80% of the costs, and in very poor communities may reach 100%.

There are some 55,000 children in full-day Headstart programs, at an annual cost of \$2000 per child.

OFFICE OF ECONOMIC OPPORTUNITY

Assistance for Migrants and Seasonal Farmworkers.—Economic Opportunity Act, Title III-B, as amended: grants to public and private nonprofit agencies and cooperatives to assist migrant and seasonal farmworkers and their families to improve their living conditions—may include day care for children.

FY 1968 expenditures for this program were almost \$700,000.

Day Care Assistance.—Title V (B) of the Economic Opportunity Act of 1964, as amended in 1967. Financial assistance may be provided to public agencies and private organizations up to 90% of the cost of planning, conducting, administering, and evaluation projects under which children from low-income families or from urban and rural areas with large concentrations or proportions of low-income persons may receive day care. Financial assistance may be provided to employers, labor unions, or joint employer-union organizations for day care projects established at or in association with a place of employment or training, where such projects are financed in major part through private funds.

No funds have been appropriated for this program.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Neighborhood Facilities Grant Program.—Housing and Urban Development Act of 1965, Title VII: financial and technical assistance for the development of centers to house health, recreation, social, and other community services, including any care centers, for low and moderate income persons. Federal grant may cover up to two-thirds of the development cost of a facility, except in redevelopment areas designated by Dept. of Commerce where limit is three-fourths of funds. As of November 1967, out of 126 neighborhood facilities in operation, 67 had day care services. As of December, 1968, out of 246 applications, 124 included plans for day care services.

Indoor Community Facilities.—U.S. Housing Act of 1937, Section 2, as amended: Loans may be made to local housing authorities for the purpose of constructing or acquiring low-rent housing, including community facilities considered to be necessary appurtenances of the housing. Space may be provided or designated for a day care center where this is a priority need. Day care programs at low-rent projects serve primarily project residents but may also serve families in the surrounding neighborhood. In December, 1965, there were 270 facilities being used as day care centers on public housing sites, 279 off-site facilities being used for the same purpose.

Model Cities Programs.—Title I of the Demonstration Cities & Metropolitan Development Act of 1966: grants and technical assistance are provided to help selected communities of all sizes to plan, develop, and carry out model cities programs. Day care projects may be a part of a model cities program. 80% of the costs of planning and developing the program and 80% of the costs of administering the program are provided by the Federal Government.

The Tenant Services Grant Program.—Title II-B of the Housing and Urban Development Act of 1968. Authorizes the Secretary of the Department of Housing and Urban Development to enter into contracts to make grants to public housing agencies to assist in financing tenant services for families living in low-rent housing projects. Such tenant services may include child care.

No appropriations for FY 1969.

DEPARTMENT OF LABOR

Experimental, Developmental, Demonstration, and Pilot Projects.—Title I of the Manpower Development and Training Act of 1962, as amended. Assistance may be given through grants to or contracts with public or private non-profit organizations, or through contracts with other private organizations, for the purpose of improving techniques and demonstrating the effectiveness of specialized methods in meeting manpower, employment, and training problems of worker groups. Manpower training programs which utilize day-care services in an innovative way may be eligible projects.

Neighborhood Youth Corps.—Title I-B of the Economic Opportunity Act of 1964, as amended. Assistance may be given to local sponsors for developing and operating programs that provide young men and women from low-income families with a broad range of work experience opportunities. Thus, Neighborhood Youth

Corps enrollees may be assigned as day-care aides. In-school programs may enroll students and recent drop-outs 14 to 21 years of age. Enrollees in out-of-school projects must be unemployed and at least 16 years of age.

Special Impact Program.—Title I-D of the Economic Opportunity Act of 1964, as amended.

Local sponsors may develop and operate projects that aim at solving critical problems facing urban areas with large numbers of low-income persons. The projects concentrate on work training that will result in improvements in the neighborhoods where participants live. Project activities may include developing day-care programs.

Operation Mainstream.—Title II, section 205(d), of the Economic Opportunity Act of 1964, as amended.

Local sponsors may develop and operate work experience and training projects for poor adults with a history of chronic unemployment. The projects—which may include day-care centers—concentrate on activities that will improve both rural areas and towns or particular low-income areas where projects take place. To be eligible, individuals must be at least 22 years of age and come from families with annual income below the poverty line. Participants also must have been unemployed for more than 15 consecutive weeks, repeatedly unemployed during the past 2 years, or employed less than 20 hours a week for more than 26 consecutive weeks.

New Careers.—Title II, Section 205(e), of the Economic Opportunity Act of 1964, as amended.

The program is designed to meet critical local shortages of personnel in such essential fields as health and education by re-engineering professional jobs, extracting tasks that require less than professional training, and establishing specifications for new jobs. Ninety percent of the participants must be at least 22 years of age, while 10 percent may be between the ages of 18 and 21 and unemployed.

Work Incentive Program.—Title IV-B of the Social Security Act, as amended.

These projects will seek to increase the employability of persons over 16 years of age and out of school who are welfare recipients and not immediately employable. State and local manpower agencies deliver manpower services. The Manpower Administration has the responsibility for providing training and work experience. Programmatically, State and local welfare agencies concentrate their activities in providing social services necessary to assist family groups. Day-care services are provided for the children of trainees; trainees may prepare for work in child care centers.

On-The-Job-Training Program. Title II of the Manpower Development and Training Act of 1962.

This act was created primarily to give job skills to the unemployed, underemployed, and workers whose jobs are endangered by changing technology. Employers, labor organizations, trade associations, and public and private agencies are able to obtain Federal funds for OJT programs for training in day-care occupations. The Bureau of Work Training Programs negotiates with each OJT contractor for the sharing of direct training costs. Reimbursement for training costs may vary for each occupation in each contract.

Concentrated Employment Program. Title I-B of the Economic Opportunity Act of 1964, as amended and Title II of the Manpower Development and Training Act of 1962, as amended.

The Concentrated Employment Program is a system of delivering manpower services in one package rather than in separate programs. Working through a single contract with a single sponsor, the Manpower Administration provides a flexible package of manpower programs under the EOA and MDTA, including outreach and recruitment; orientation; counseling and job coaching; basic education; various medical, day-care, and other supportive services; work experience or vocational training under a variety of individual manpower programs; job development and placement; and individualized follow-up after placement.

Training and Skill Development Programs.—Title II of the Manpower Development and Training Act of 1962, as amended.

State employment service offices and State vocational education offices may develop programs jointly for institutional training in day-care occupations. The employment service has responsibility for the certification of training needs in specific occupational areas. Unmet needs for workers in day-care facilities may be brought to the attention of the employment service by individuals, community groups, or government agencies, and training programs.

SMALL BUSINESS ADMINISTRATION

Business Loans.—Section 7(a) of the Small Business Act of 1953, as amended.

Small businesses that are unable to obtain credit elsewhere on reasonable terms may apply for a loan. Such firms must be organized for making a profit, since SBA does not make business loans to non-profit enterprises. Persons operating day-care centers may be eligible for a bank loan that is guaranteed by SBA, or one in which the bank and SBA participate jointly. In accordance with SBA standards, a business must be small in order to qualify for a loan. Most day-care centers could qualify in this respect. In FY 1968, SBA made 32 loans to day-care centers—gross, \$764,000; SBA share, \$700,000.

Economic Opportunity Loans.—Title IV of the Economic Opportunity Act of 1964, as amended.

Persons whose incomes are below that required to meet basic needs, or small business concerns located in areas with high proportions of unemployed or low-income individuals, or those who have lacked the opportunity to acquire capital to establish, expand, or strengthen a small business, may apply for an economic opportunity loan to establish a day-care center. Such loans may be applied for at any SBA regional office.

Lease Guarantee Program.—Title IV of the Small Business Investment Act of 1958, as amended.

Any small business—whether a retailer, wholesaler, manufacturer, or service establishment—may qualify for this insurance. For lease guarantee purposes, SBA defines a small business as one that is independently owned and operated, non-dominant in its field, and meets employment or sales standards developed by the agency. The shortest term for this insurance is 5 years; the longest, 20 years. SBA will issue direct lease guarantee insurance policies only on 15 or longer. Lease guarantees for shorter periods must be SBA participation policies written by private insurance companies.

DEPARTMENT OF AGRICULTURE

National School Lunch Program.—The National School Lunch Act of 1946, as amended, and sections 5 and 12 of the Child Nutrition Act of 1966. All public and nonprofit private schools of high school grade or under may apply for participation. This covers preschool programs (including day care centers) only when they are operated as part of the school system. The general purpose of both acts is to safeguard the health and well-being of the Nation's children and to encourage the domestic consumption of nutritious agricultural commodities and other foods, by Federal assistance to the states for the establishment, maintenance, operation, and expansion of nonprofit school lunch programs.

School Breakfast Program.—All public and nonprofit private schools of high school grade or under may apply for participation. This covers preschool programs (including day care centers) only when they are operated as part of the school system. To the extent practicable, first consideration is given to schools drawing attendance from areas in which poor economic conditions exist and to schools in which a substantial proportion of the children enrolled must travel long distances daily.

Special Milk Program.—Section 3 of the Child Nutrition Act of 1966, (Public Law 89-642). All public and nonprofit private schools of high school grade and under, nonprofit nursery schools, child care centers, settlement houses, summer camps, and similar nonprofit institutions that provide for the care and training of children are eligible. Estimated expenditures for milk programs for preschool children in 1969 was \$3.1 million in 2300 centers.

Special Food Service Program For Children.—Section 13 of the National School Lunch Act, as amended in 1968. All public and nonprofit service institutions such as child day care centers, settlement houses, or recreation centers that provide day care or other child care, where children are not maintained in residence, for children from areas in which poor economic conditions exist, or areas in which there are high concentrations of working mothers, may apply for participation. Public or private institutions that develop a special summer program providing for children from such areas food service similar to that available to children under the National School Lunch or School Breakfast Programs during the school year and public or private nonprofit institutions providing day care services for handicapped children from such areas may also apply for participation. Institutions may not participate in this program and the Special Milk Program at the same time.

Cooperative State-Federal Research.—Section 2 of the Hatch Act of 1887, amended. State agricultural experiment stations may receive federal grants to carry out research focused on improved nutrition of the preschool child, improved level of living of families, and development of human resources, including research related to the very young. Thus, research under this act may have direct or indirect import for day care programs.

PROPRIETARY DAY CARE PROGRAMS

Perhaps because Federal, State and local governments have been slow in developing programs, there has been a growing interest on the part of private non-profit and profit-making organization in providing day care programs.

There are generally three ways in which American business and labor have participated in child care programs to date.

The first, most similar to a pattern common in Europe and Japan is for child care to be closely integrated with and adjacent to the parent's place of work.

The second, is for one or more child care facilities to be established with business support but serving a broader base of the community's children and not necessarily located close to or associated with a given business or labor organization.

The third, is the franchised child care center, developed by a central company according to its own particular format designed to meet licensing requirements in the 50 states, including staff training at the headquarters, a distinctive program and building. Food franchises—fried chicken, donut, and hamburger carry-outs—seem to be most active in day care franchising, perhaps because of their previous experience in franchising operations.

According to the Women's Bureau of the Dept. of Labor, *hospitals* have been leaders in day care, setting up some 100 centers across the country. Other facilities have been established in shopping centers, universities, and private companies.

PROGRAMS

Amalgamated Clothing Workers of America have established three centers, in Virginia, Maryland, and Pennsylvania, and are planning several others in Penna. and the Mid-West.

The National Council of Jewish Women is planning to establish a network of integrated day care centers in urban areas to help prepare underprivileged children for school and to give mothers an opportunity to seek employment. Centers will be established in abandoned storefronts, church basements, Sunday school classrooms, churches of all faiths, and abandoned houses. Renovation funds will come from the Council, and funds will be sought from federal and state agencies.

KLH Research and Development Corporation, a subsidiary of Singer Company, has started the KLH Child Development Center, Inc. A separate entity, the KLH Center is a research demonstration pilot project providing all-day, year-round care for 60 pre-school children aged 2½–6 of parents working at KLH. Parents are able to drop off and pick up their children at the start and finish of the work-day and to have contact with their children and staff during the day. Open 50 weeks of the year, its hours are 6:45 a.m. to 5:00 p.m. to cover both office and factory working hours. Operating costs are now being met by contributions from KLH, by sliding scale fees (\$5 to \$20 weekly per child), and by a research demonstration grant from the Children's Bureau of HEW. When a child is enrolled in the Center, the parent becomes a member of the corporation which governs policy through its elected Board of Trustees.

Twin Cities Area Child Care Center, Benton Harbor, Michigan. Started by the Area Resources Improvement Council, Inc. (ARIC) as part of a wide range of community improvements. Sparked by executives of the *Whirlpool Corporation*, ARIC uncovered a great need for day care centers, formed a committee to study and work on the problem, and a few months later the Twin Cities Area Child Care Center was formed. Adhering to a rigid 8 month schedule, the first of the Twin Cities Centers became operational in September with facilities for 80 children. Three more centers, each serving from 80 to 100 children are scheduled for opening in 1980, '71 and '72. Funding has come from a variety of sources—endowments, the United Fund, individual, state and Federal contributions, and fees paid by parents on a sliding scale basis.

U.S. Department of Labor Day Care Center, located in the Auditors Building, 14th and Independence Ave. Operated by the National Capital Area Child Day Care Association under contract with the Department. Of the 60 children at the

center, half are children of disadvantaged women who could not work without low-cost day-care; half are selected from among departmental employees at all salary levels. A similar center is being planned for the *Department of Health Education and Welfare*.

U.S. Department of Agriculture Research Center in Beltsville, Maryland has opened a child care facility at the Plant Station.

Performance Systems Inc., a subsidiary of the Minnie Pearl Fried Chicken System, Nashville, Tennessee has opened the first of a nationwide network of franchised day care centers. Staff members are trained by Performance Systems to insure uniform quality across the country, and a distinctive building, which meets the school facility regulations in all 50 states, has been designed to house the centers. The Centers will have a 100 child capacity, will be open from 7 a.m. until 6 p.m., will serve two meals per day, and will cost \$21.75 per week for the first child in the family with discounts for additional children. Staffing each center will be a director (M.A.) and assistant (B.A.) and 10 aides. Centers will be located near industrial centers, and it is possible that interested companies may contract with Performance Systems to run in-plant centers.

Gerbers Baby Food has acquired "We Sit Better", a national baby-sitting service, and is expected to expand into franchised day care very soon.

IBM has acquired Dunkin' Donuts and plans are being laid for a franchised day care center operation.

Industrial Developers Incorporated, is providing franchised day care services in Florida (headquarters in Philadelphia area).

Latin American Development Corporation has begun three centers in Miami, one in Fort Lauderdale.

La Petite Child Care operates from Springfield, Illinois, has established centers as far away as Florida.

Others include: Kay Kiddie Kollege, Barton Child Centers, Hasbrough Toys, Merrie Moppets, Tom Taylor Child Care Association.

Mr. VENEMAN. But what you are asking about is a State that did provide not only the group care but the—

Mrs. GRIFFITHS. I found out that the State of Michigan is practically providing no group care, that they are really paying for babysitters. There are no receipts for the babysitters. No one knows who the babysitters are, whether they are the grandmother, the oldest child, or who. And the amount paid out for babysitters has gone up astronomically week by week.

I am interested in whether or not this phenomenon has occurred every place else.

Mr. VENEMAN. We would be, too.

Mrs. GRIFFITHS. I really don't believe that this committee realizes that we have been paying for babysitters. I think the committee believed that the day-care centers were going to spread out and that children were going to be removed from the environment and put into a better situation.

Now I would like to ask you, in your own day-care which children are going to be eligible for day care?

Mr. VENEMAN. Those of the working mothers under the program. I will let Mr. Sugarman elaborate on that.

Mr. SUGARMAN. I think it would be those who are children from families that are participating, because in the Family Assistance Act or because they have been on AFDC rolls and need day care to continue training or employment—

Mrs. GRIFFITHS. What about the working poor?

Mr. SUGARMAN. If they qualify for family assistance, yes, otherwise, no, and have not had a previous history—

Mrs. GRIFFITHS. And which children are you going to pick out? Are you going to take children under 6?

Mr. SUGARMAN. Yes.

Mrs. GRIFFITHS. Children above 6?

Mr. SUGARMAN. Children above 6.

Mr. VENEMAN. Mrs. Griffiths, may I just respond to your question about the "working poor"?

Mrs. GRIFFITHS. Yes.

Mr. VENEMAN. I think there would be one basic assumption, and that is, if this were a family that qualified as "working poor," the low-income working family, they have probably already taken care of their day care or child-care problem.

In other words, they are working now and——

Mrs. GRIFFITHS. You are not going to pay for those?

Mr. VENEMAN. These are intact families, so presumably they have their problem worked out.

Mrs. GRIFFITHS. So you are not going to pick them up under "day care"?

Mr. VENEMAN. We do.

Mrs. GRIFFITHS. Because if you don't pick them up under "day care," why work? If that mother is having to pay out money and she is poor and she has to pay for the care of the child, why doesn't she just go onto welfare and let you take care of the children?

Mr. VENEMAN. Because she is better off working. In fact, the question is, why work now? That is the point I am making. She is working now. That is the point. She is now working, under the present system.

Mr. PATRICELLI. There is a confusion about two different groups. The "working poor" have to be an intact family by our definition, with the male working and the mother being at home to take care of the children. And in those cases, you do not need any kind of day care to keep that father working?

However, where there is a welfare mother who is moving from a training situation into a job, she is not formally a member of the "working poor." She would have day care available to her.

Mrs. GRIFFITHS. Will this bill take care of the children of working widowed father in day-care centers?

Mr. VENEMAN. Working widowed mothers, yes.

Mrs. GRIFFITHS. Fathers?

Mr. VENEMAN. Yes.

Mrs. GRIFFITHS. Now, I would like to ask Mr. Ball some questions.

Mr. VANIK. Mrs. Griffiths, would you yield for just one question?

Mrs. GRIFFITHS. Yes.

Mr. VANIK. Before we proceed to Mr. Ball, I was wondering whether I might ask with respect to registration, this really amounts to a national registration of the poor, does it not?

Mr. VENEMAN. Do you want to comment, Mr. Patricelli? Secretary Shultz?

Mr. ROSOW. I could answer it.

Mr. VANIK. It is a question I intended for Secretary Shultz. In this bill what we do is provide for a registration, a national registration of the poor?

Secretary SHULTZ. No. We provide for registration for certain categories of people explicitly defined in the law.

Mr. VANIK. Who would be excluded?

Secretary SHULTZ. The exclusions would be the wives of family heads, female family heads with children under 6, family heads who are ill, aged, or disabled.

Mr. VANIK. Those are six categories.

Secretary SHULTZ. Family heads already working full time, 18- to 21-year-old students, other adults, aged, or incapacitated or needed in a home to care for an ill family member. They are explicit exclusions from the registration requirement.

Mr. VANIK. But in numbers what are we excluding among those who might be poor and not included by the provisions of this section?

Secretary SHULTZ. We estimate that there are 9 million adults in families that would be eligible for family assistance. The list of those not required to register would break down as follows: The wives of family heads is 3.1 million; the female family head with children under six, 0.9 million; family heads who are ill, aged or disabled, 1.2, family heads already working full-time 1.8. That is a little different from these other categories. They are already working. The registration idea is to move toward work.

And then the other category is 0.9.

So you would have a total required to register of about 1.1 million and the total of those working full-time or required to register, if you put those two together, is 2.9 million.

I might point out that there are all these different numbers that float around, and it is difficult to tell what matches with what.

There are approximately 5 million families and 9 million adults. There are those two different figures. I used the 5 million figure in my testimony.

Mr. VANIK. I would like to just ask this. In your exclusions you exclude members of the Armed Forces being part of the family. Would this language have the effect of excluding from this program the wives or dependents of people in the military forces who would otherwise qualify?

Today, the welfare programs are supporting a great many military dependents who simply can't exist on their military allocation.

Now, would this language serve to exclude those military dependents?

Mr. PATRICELLI. Yes, that is correct, Mr. Vanik. It does exclude the dependents of military service personnel.

Mr. VANIK. Are you aware of the fact that around places like Fort Dix and other places there are just—I don't know—thousands of these young folks that are receiving public assistance, qualifying in every particular with the law, and they simply can't support their families on a military allotment? Are we going to cut them out?

Mr. VENEMAN. Mr. Vanik, are you saying that around these military bases you have married couples with families who are on public assistance programs?

Mr. VANIK. Absolutely.

Aren't you aware of that?

Mr. VENEMAN. What program would they be under?

Mr. VANIK. They are under the regular welfare program. They just go in, don't have enough income. They are low-income families.

Mr. VENEMAN. We had extensive discussions with the Department of Defense on this provision and it was their feeling that the answer to that problem is not to relieve the pressure on the military pay system by subsidizing it through welfare, but do something about the military pay system.

Secretary SCHULTZ. The basic point I think here, and it is very important, is to get to work on this question of military pay and the whole question of a volunteer Armed Force which we are working on.

Mr. VANIK. Well, until something is done in this area, if they qualify otherwise for assistance, it seems to me that the law ought to be left unchanged and let them qualify, because certainly we don't expect military families to be denied welfare benefits that everyone else is entitled to. Why should we discriminate against this group? It would seem to me that this exclusion should be modified until the provision for the support of military families is adequate to lift them above the provisions of the law.

Mr. COLLIER. Would the gentleman yield?

I seriously doubt, in spite of what you say, that there are hundreds of servicemen on welfare around military bases.

Taking an example of other military bases, together with the subsistence that a family receives, if they live off base, plus what they are entitled to for each child, I doubt that they would qualify except in perhaps rare cases where they also receive medical benefits and so on, so that they would actually qualify. I would like to see some figures on this subject. In fact I will make it my business to get them from the welfare department for the record. I believe these are very isolated cases and I think I can document this conclusion and will do so.

(For the information referred to see pp. 435-436.)

Mr. VANIK. Well, I am talking from document records. I know this to be a fact to my personal knowledge and I don't know how extensive it is, but I have reason to believe that it is rather broad-based and it is rather extensive. We are not talking about hundreds. We are talking about thousands and thousands of people, that are eligible and receiving welfare assistance, because their military support is not adequate.

Secretary SHULTZ. I will express my feelings on this. There is a problem here. It needs to be worked out and we think the way to work at it is to make the pay of people in the military services—many of whom are drafted into the military services and involuntarily there—adequate. That is what needs to be faced up to, but I would agree on the problem, that they certainly do deserve to have a decent income.

Mrs. GRIFFITHS. I would like to take back the floor.

Mr. Secretary, I have been holding hearings on inflation. Are you suggesting now that we could have an Army of a smaller size?

Secretary SHULTZ. The question of the all-volunteer force and just how one might construct that and the implications as to size of the Armed Forces and so on is being reviewed by a commission right now. They are studying those matters, and I would defer before jumping into a question like that to see the results of whatever their studies show, but I do think that this question of the adequacy or inadequacy of military pay is very much before us and that is the way to go at this issue.

Mrs. GRIFFITHS. Adequate military pay isn't going to do anything to stem inflation.

Now, I would like to ask the Social Security, the questions I started out to ask.

I only ask you these because I think they ought to be on a public record and not asked after we are in executive hearings.

I apologize to the rest of the committee.

What has been the experience of picking up disabled widows at 50?

Mr. MYERS. Mrs. Griffiths, to date the cost for disabled widows has been relatively low, in fact considerably lower than what was estimated to be the case. However, I wouldn't want to pass any final judgment on this at this time because, as with all the disability programs we have had, the claims tend to come in slowly at first because people don't realize that they are eligible for the benefits.

Mrs. GRIFFITHS. How much have we paid out?

Mr. MYERS. I don't have that information with me.

Mrs. GRIFFITHS. Will you supply it for the record?

Mr. MYERS. Yes, I will supply it.

(The information referred to follows:)

NOVEMBER 5, 1969.

MEMORANDUM

From ROBERT J. MYERS, Chief Actuary, Social Security Administration.
Subject: Data on Benefit Payments to Disabled Widows and Widowers.

At the end of August 1969, an estimated 27,000 disabled widows age 60 (including also a few disabled widowers under age 62) were receiving monthly benefits at an annual rate of about \$22 million. Through August 1969, cumulative benefit payments to such category are estimated at \$36 million.

ROBERT J. MYERS.

Mrs. GRIFFITHS. How many have been turned down?

Mr. MYERS. Again, Mrs. Griffiths, I am sorry I don't have those detailed figures with me.

Mrs. GRIFFITHS. Will you supply it?

Mr. MYERS. Yes; I will be glad to do so. This has been a relatively low-cost program so far.

(The information referred to follows:)

NOVEMBER 4, 1969.

MEMORANDUM

From ROBERT J. MYERS, Chief Actuary, Social Security Administration.
Subject: Data on Disallowances of Claimants for Disabled Widow Benefits.

Through August 1969, there have been 102,000 claims filed for disabled widow's benefits (including a very small number of disabled widower's benefits). Approximately 60,000 (or 59%) of these claims were disallowed—primarily because the alleged disability did not qualify under the definition in the law, but also because of such other factors as failure to be age 50, lack of insured status of the deceased worker, etc. In the last 6 months, there have been an average of 4,000 determinations made monthly, with a disallowance proportion of 60%.

It should be noted that data on disallowances are not entirely of a significant nature. This is the case because there are considered only formal disallowances and not the so-called informal disallowances that occur at the district office level (where the prospective claimant may decide that there is no real purpose to be served by filing a claim). Furthermore, the disallowance data is subject to considerable variation and interpretation because the number of claims filed is dependent on the action of the claimants, rather than on any precisely measurably demographic conditions. Specifically, if, in addition to those who filed for claims at present, there were to be much more filing by persons who are only slightly disabled and who decide not to file application after learning the facts of the situation at the district office, then a far greater number of determinations would be made, and there would be a far larger percentage of disallowances, even though the number of allowances would remain unchanged.

ROBERT J. MYERS.

Mrs. GRIFFITHS. What would be the estimated cost of picking up all widows at 50 at 82½ percent of the husband's benefit?

Mr. MYERS. The cost of paying full benefits; that is, 82½ percent of the primary insurance amounts, for all widows and widowers at age 50 is estimated at 0.52 percent of taxable payroll.

Mrs. GRIFFITHS. How much is that in annual dollars?

Mr. MYERS. In terms of annual cost, that would currently average about \$2 billion a year.

Mrs. GRIFFITHS. I see.

What is the annual cost of picking up divorcees under the bill as it is now?

Mr. MYERS. That is divorcees both as—

Mrs. GRIFFITHS. The divorcee who has been married 20 years, and how it got in there I don't understand, that the husband is supposed to agree to pay half her expenses, half her cost of living.

Mr. MYERS. What is the cost of the present provision?

Mrs. GRIFFITHS. No; what is the present cost. The cost of the present provision.

Mr. MYERS. Again, this is relatively low, but I don't have the exact figures here.

Mrs. GRIFFITHS. Will you give me that in the record, and will you tell me if in place of having the present provisions as it is, just require the 20 years of marriage before the divorce; what would it cost?

(The information referred to follows:)

DATA AND COST ESTIMATES FOR BENEFITS FOR DIVORCED WOMEN

Under the OASDI system, the divorced wife of an insured worker can receive benefits as a wife and also as a widow after the death of her former husband, if she meets certain special requirements. One of these requirements is that she must have been married to the insured worker for at least 20 years. Another requirement is that she must either have been receiving at least one-half of her support from such individual (or else substantial contributions from him pursuant to a written agreement), or else there was in effect a court order to substantial contributions to her support from such individual.

Under this provisions, currently there are approximately 5,700 former wives of old-age or disability beneficiaries who are receiving monthly benefits at an annual rate of about \$3.9 million. Similarly, under this provision, there are about 5,000 such divorced wives of deceased workers who are receiving monthly benefits at an annual rate of \$5.7 million.

The question has been raised as to what would be the additional cost of this provision if the special requirements for support or a court order for support were eliminated. In my opinion, this would not have a very significant effect on the long-range level-cost of the program and would probably mean current additional disbursements of perhaps no more than \$5 million a year. One reason for the relatively low cost involved is that many of the potential additional beneficiaries would have benefits in their own right, based on their own earnings, so that little additional would be payable to them as divorced wives.

Mrs. GRIFFITHS. Now, I would like to know whose aged parents are picked up, whose aged parents?

Mr. BALL. Under the proposal, Mrs. Griffiths.

Mrs. GRIFFITHS. Today.

Mr. BALL. Today it is only in the case of a deceased worker who has been supporting his parents to the extent of at least half of the parents—

Mrs. GRIFFITHS. His parents or his wife's parents, or either set?

Mr. BALL. The worker's parents.

Mrs. GRIFFITHS. The worker's parents?

Mr. BALL. Yes.

Mrs. GRIFFITHS. If a widow has her own parents in the home and she is drawing against her husband's social security, but she has credits can the parent draw the widow's credits?

Mr. BALL. If she is insured in her own right, Mrs. Griffiths—

Mrs. GRIFFITHS. Yes.

Mr. BALL (continuing). Then the parents would get benefits based on her wage record; yes.

Mrs. GRIFFITHS. I see.

If the parents have other children, do you look to the assets of the other children?

Mr. BALL. No; not to assets, no.

Mrs. GRIFFITHS. Do you look at the income?

Mr. BALL. No.

Mrs. GRIFFITHS. Do you ask at any point whether or not there is another person in the family that could support those people?

Mr. BALL. Not that could support them. We do not look at that. The law requires that we look only at what the actual support situation is.

Mrs. GRIFFITHS. Now, I would like to ask you what is the estimated cost of picking up husbands and widowers on a wife's social security?

Mr. MYERS. Mrs. Griffiths, the cost of that, assuming that there continues to be an earnings or retirement test, but eliminating the dependency requirement, is .07 percent of taxable payroll, which in terms of dollars would be about \$280 million a year on the average.

Mrs. GRIFFITHS. Why don't you make this suggestion? The real truth is that in large measure these people are now old. Many of these men are people who didn't work under social security. The wife really did supply a large part of the income. Why don't you pick up the husbands and the widowers of a wife on her social security?

Mr. MYERS. Mrs. Griffiths, as you know, of course, if they are—

Mrs. GRIFFITHS. I know this.

Mr. MYERS (continuing). If they are dependent, they get it.

Mrs. GRIFFITHS. If she is supplying more than half, but why have a requirement like that?

Mr. MYERS. Could I add something about the cost estimate and then perhaps Commissioner Ball would want to talk about the principle involved.

The reason the cost is so high relatively, as I mentioned, is primarily because such a provision would also pick up the husbands of women workers where the husband himself had been a substantial worker but had not been in covered employment, as, for example, a man who worked in the civil service retirement system when his wife worked, for example, in a department store.

Mrs. GRIFFITHS. Well, I really don't have anything against civil service employees. I have seen no objection to picking them up and you are doing a great injustice both to women and to their husbands. Why have you not now come in with a suggestion that permits a married working wife and her husband to draw at a larger amount?

Now, under the new bill you are again going to have the situation where a couple can pay in, just a working couple, as much or more than the place where the man alone is working, and yet aren't there situations in which they will draw less?

Mr. BALL. Yes, Mrs. Griffiths, you are correct, and I believe that you have pinpointed a real difficulty in the present program. I am not quarreling at all with your analysis of the inequity here. We have had great difficulty in developing a proposal that we feel is really a workable one. Also, any proposal that accomplishes what you have in mind is quite an expensive proposal.

You may remember that in the President's message he recognized this problem and directed the Advisory Council that was appointed last May to pay particular attention to this issue and see if they could come up with a solution to it.

There are various possibilities. One is, of course, your combined wage credit bill, which I assure you does have a lot of difficulties in the working out of it, and other possibilities are to pay a partial benefit of both the wife's—

Mrs. GRIFFITHS. One quarter.

Mr. BALL. Something of that kind. I believe that sooner or later this issue does have to be met and some change made.

Mrs. GRIFFITHS. The fact that you are now going to pay a widow 100 percent of her husband's social security is not going to relieve you of the problem. It is going to increase it because the women who are working know that it is they, in reality, who are paying that money, and, of course, you are getting increased objections because many women who worked never realized until they started to draw or heard of others who were drawing that they weren't going to get their own social security and half their husband's.

Mr. BALL. Mrs. Griffiths, I agree that the problem that you have pinpointed of a couple getting a lower amount when they both work than if the husband alone earned the same amount of money is a very real problem and that we will have to have a solution to it.

Nevertheless, I don't think that the rationale in present law distinguishing between widows and working women is really without foundation. I think the principle has been that you treat a woman as a dependent or you treat her as an independent worker and not a dependent. The test in present law has been: If on the record she has worked sufficiently so that the benefit that flows from that wage record is greater than it would be if she were treated as a dependent, then she is not considered a dependent and she gets her own benefit. On the other hand, if she hasn't worked that much or hasn't worked at all, then she is a dependent and she gets a dependent's benefit, but not both.

Mrs. GRIFFITHS. Well, it is a very unfair law, I would like to ask Secretary Shultz one question, and then I would like to submit the rest of my questions for the record and I would like them answered on the public record.

Mr. Secretary, are you aware that the States under present law are required since 1962 to disregard the costs of going to work?

Secretary SHULTZ. I believe the States have the option of putting in an amount of disregard in addition to the Federal disregard, and it varies quite a lot from one State to another.

Mrs. GRIFFITHS. In addition, under present law an additional \$30 plus one-third is required to be disregarded. The inescapable conclusion is that in most States your proposal will have less of an incentive than present law. Is that not true?

Secretary SHULTZ. The standard basic allowances, as I said, vary and the range runs from \$11 in Massachusetts to \$50 in New Jersey. The median allowance is \$30. So there will be variation around this.

We have, in effect, standardized that.

Mrs. GRIFFITHS. So that in some States actually this bill is less of an incentive to go to work than we now have; is it not?

Secretary SHULTZ. In this particular regard, but there are many other aspects to the law that have to be recognized on the incentive side.

Mrs. GRIFFITHS. Like what?

Secretary SHULTZ. Well, first of all, insofar as the Federal side of the program is concerned, the marginal tax rate which is 50 percent. I think that the strong day care provision, myself, is a very powerful incentive here, perhaps more important than some of these monetary amounts.

If we can just get that program going well, that will be a major incentive.

Mrs. GRIFFITHS. Thank you.

Thank you, Mr. Chairman.

Mr. ULLMAN. Without objection, the record will be held open for those questions and the answers.

(The questions and answers referred to follow:)

QUESTIONS FROM MRS. GRIFFITHS

1. "Secretary Kennedy has said that unemployment at the 4% rate is acceptable. How is this consistent with your statement on page 26 that it is government's responsibility to produce enough jobs?"

Answer. On October 8, 1969, the Treasury Department issued a statement which read as follows: "It should be made crystal clear, as Secretary Kennedy, indicated to the Joint Economic Committee yesterday, that any unemployment in our country, however small, is an unhappy condition and one that we will constantly seek to correct. In fact, as Secretary Kennedy stated, this Administration has already taken vigorous steps to increase the employability of people without jobs."

2. "Mr. Secretary, under point 2 on page 4, you say that covering the working poor 'eliminates the situations where those who do not work receive higher income than those who work.' However, since you do not require the States to supplement the Family Assistance allowance of working poor, you have not eliminated this difference in 43 states. Is that not right?"

Answer. That is not right because, while the working poor do not receive a state supplement, they receive a combination of their wages and Family Assistance. It is unlikely that there would be many cases where the wages would be less than the State supplement received by those who do not work, since Family Assistance would be paid up to an income of \$3,920 for working poor a family of four.

Mrs. GRIFFITHS. Yes. Thank you very much.

Mr. ULLMAN. Mr. Byrnes?

Mr. BYRNES. Thank you, Mr. Chairman.

I want to address myself to Secretary Shultz and, first, compliment you on your statement. The suggestion has been made that there is nothing really new.

Tell me this: At least my feeling is that there is something new here in terms of the new responsibility on a Federal basis for getting these people into work-training and into jobs. It does not exist under present law. We talk about States doing this, and then leave it more or less up to the States whether they do it, isn't that the situation that we have had in the past?

Secretary SHULTZ. I agree with you. I think what we have done is to pull together much more strongly this whole aspect of the program, in addition to the very major changes that have been made in the income allowance side of the program.

Mr. BYRNES. I am impressed by some figures that I have seen with respect to the work incentive program, your AFDC. In comparing the two States that happen to be responsible for about a third of the potential participants in the WIN program, you have a situation if these figures are accurate, where in New York you have 548,295 recipients who have been checked out for the purpose of potential referrals with 37,823, or 6.9 percent, actually determined as appropriate for referral. Yet we have California with 193,000 cases with 68,000 found appropriate for referral, or 35 percent.

There seems to be a big difference in the application between two very large States, and I can't believe that it is just because of variance in the economic situation or population or anything else in those two States that would lead to such a disparity. I gather from what you said in your statement this is one of the things that we are going to get at under the new program with the new Federal responsibility. Is that correct?

Secretary SHULTZ. That is correct. In fact, the disparity is even greater when you look at all the States. I think in my testimony I mentioned Utah where it is up around 97 percent.

Mr. BYRNES. Now, it is interesting to go further in this. Of the 37,000 who were found appropriate for referral to the WIN program in New York the number actually referred, out of the 37,000 found appropriate for referral, only 10,000 were referred, or about 26 percent.

In California, however, of the number that were appropriate to be referred, which was 68,000, there were 61,000 referred to WIN, or 89 percent.

So, again, under what is proposed here, I assume this disparity will also be eliminated and in fact every State should have 100 percent, is that not correct?

Secretary SHULTZ. Correct.

Mr. BYRNES. Instead of a situation as in New York where only 26 percent of those who are assessed actually get on a referral basis.

Secretary SHULTZ. The basic distinction is between a law in which you say to the welfare group, "You define what is appropriate for referral," and they do, and they vary from one State to another as to how they look upon that word, on the one hand, and, on the other, a law such as we have proposed here which explicitly lists the categories that will be exempted from the registration requirement. This whole process of how that would work is what is over there on that chart.

Are you going to get around to that?

Mr. BYRNES. I am going to ask you in a second the appropriate question to get to the chart, but I just want to follow this particular line.

Next, as we follow this chain of events, we find that of those 10,000 in New York who were referred, the number actually enrolled, and we keep getting down to a reducing number, only about 6,000 actually were enrolled, or 59 percent; whereas in California—and why this shows up, I don't know—the number of the cumulative enrollment was 44 percent, so California's record isn't quite as good. We get, then,

to the next factor. The number of the cumulative enrollment currently enrolled was only 44 percent of the spaces available for training under the WIN program, and the same number, 12,000, of training spaces was available in California. But we find the number of enrollees was 166 percent, who actually got into the program, and that 166 percent being more than a hundred is explained in this chart—when enrollment exceeds the approved training spaces due to the number of trainees in holding status, that is, awaiting assignment or reassignment to training activity. What impresses me here is the the great disparity and the unwillingness, apparently, of some areas to make use under the present law of the encouragement and everything else that Congress is trying to do to say, "Move these people into some kind of self-sufficiency or get them to helping themselves." To me, the heart of this program that you have recommended is the elimination of this disparity and the development of a situation more comparable to results.

Is that your hope, also, and am I accurately defining what one of the big distinctions really is between this program that you are proposing and the present modus operandi?

Secretary SHULTZ. Yes, sir.

Mr. BYRNES. You have had a study made, Mr. Secretary, of the WIN program by a private research organization. I guess it is the Auerbach Corp. of Philadelphia.

Have they transmitted any report to you under that study, do you know?

Secretary SHULTZ. We have had some informal reports. We don't have a formal report from them as yet but we have been hearing what they have to say about the program and working with their suggestions. We don't have a formal evaluation report yet.

Mr. BYRNES. Since this is such an integral part in the area that the committee will have to be concerned with, I am wondering what information we can get from this study and the degree to which that study is nearing completion. Is there something that can be done to put a burr under them so that we could have the advantages of some of it within the next 3 weeks to a month? What is the situation? Do we have some preliminary reports that you could make available to us in that time? Could they give as full a report as they possibly can, supplementing it within a reasonable period of time so that we both could have the advantage of the study when the committee proceeds into executive sessions to develop this legislation?

Secretary SHULTZ. The WIN program is a relatively young one and there are quite a variety of efforts going on concurrently with the development of the program to find out what its difficulties are and insofar as we can just correct them right away as soon as we can see a problem developing.

We don't wait for somebody to give us a formal report and so forth. If we find that something isn't working, we try to do something about it as quickly as we can.

So we have information from this group. We have information of our own that we are following through on and we certainly want to make available to the committee all of this information as it is available to us in evaluating what we are doing. And I think that the point that you brought out just a few moments ago, particularly as to the variation from one State to another, goes back to this kind of ambiguo-

ous word used for registration as distinct from the fairly strong operational categories for registration that we have set up in this bill, is an example of something that we have learned from the bit of experience we have already had. And we have made a change there. We would want to make available to you in the executive session, and before, all the relevant information we have from various sources and we would want to try to put that together.

Mr. BYRNES. What I am really asking is whether within the contract that you have with this corporation might they provide you and us with some kind of a report as to their findings, even though they are preliminary.

Secretary SHULTZ. We certainly would want to make the information available.

Mr. BYRNES. I wonder if you would have somebody on your staff contact these people to apprise them of the interrelationship here and ask that they supply information to the degree they can that would be directed toward the new program from their past experience. The same thing I would ask of Secretary Veneman.

I understand you have had a contract study with the University of Wisconsin in terms of the poor, and that study has been underway for a year or more.

Mr. VENEMAN. I think that was an OEO contract.

Mr. BYRNES. Excuse me?

Mr. VENEMAN. I believe that was a contract with OEO.

Mr. BYRNES. Oh, that was an OEO contract?

Mr. VENEMAN. We are now in the process of negotiating two contracts developing plans.

Mr. BYRNES. Let me ask you this: If you would contact the OEO and their people to see what information they have developed as of this date that would be helpful, also. It just seems to me that we appropriate money for these studies and then the Congress itself doesn't make some use of them. Such information would be helpful, particularly now, as we are now moving into an area that these studies concern.

Mr. VENEMAN. I think the one you are referring to is the New Jersey income maintenance experiment project which was under a contract between the University of Wisconsin and the Office of Economic Opportunity.

Mr. BYRNES. I believe that it is. It seems to me—

Mr. VENEMAN. I will determine if they have any information.

(The information referred to follows:)

EARLY FINDINGS PROVIDED BY THE OFFICE OF ECONOMIC OPPORTUNITY—NEW JERSEY
INCOME MAINTENANCE EXPERIMENT

The graduated work incentives experiment being undertaken by the Institute for Research on Poverty of the University of Wisconsin is now beginning its second year of field operations. It is still very early in the experiment, however, since payments to the experimental families were begun in stages, city-by-city: payments in Trenton began in August 1968; Paterson-Passaic in February 1969; Jersey City in June 1969; and Scranton, Pennsylvania in September 1969. Therefore, only the groups in the first two cities have been receiving payments for an appreciable time period.

No detailed statistical analysis of the data collected so far has been undertaken yet; a preliminary analysis is scheduled to be completed by June 1970. Still, on the basis of our experience with the experiment so far, we feel that several useful statements can be made with a fair degree of confidence. These

relate to, first, the administrative experience of the experiment; second, the response of the experimental families to the program; and, finally, the experience of the research group which designed the experiment.

The major administrative finding so far is that it appears to be quite feasible to require low-income families to file monthly income statements containing sufficient information to permit efficient operation of a relatively sophisticated, impersonal transfer program. There is, of course, a certain amount of late filing (about 20% in a typical month), but these are primarily families who are currently ineligible for payments, and therefore would not be required to file under a national program; their statements are required purely for purposes of experimental analysis. Indicative of the degree to which the experimental families are able, after a brief learning period, to comply with filing requirements without assistance or direct supervision is the fact that the field operation in the first two cities has been able to reduce its staff by approximately 50% since the beginning of payments.

The response of the families to the payments themselves has also been encouraging. It appears that fear that the payments would be treated as transitory windfalls are groundless; there has been no evidence of "spending sprees" or other unusual use of the transfers, even in the very early payment periods. The families appear to treat the payments just like any other income in their budgeting and spending decisions. Nor is there any evidence that their behavior is significantly affected by "Hawthorne" or "guinea pig" effects of being a part of the experiment. An attempt is now being made to explore this question in detail.

The crucial response of interest is, of course, the work effort response. While no detailed statistical analysis of the work effort of the experimental families has been made, two aggregate measures have been computed for the families in the first two cities, over periods of 8 and 14 months: the average level of payment per family and the average rate of change of family earned income. Payment levels have been remarkably stable over the course of the experiment, and earned income has risen at approximately the same rate for both experimental and control families, apparently reflecting the general rise in wage rates. Both of these measures, then, indicate no perceptible reduction in work effort as a result of the transfers.

Quite aside from the information being generated in the field, the experience of research group which designed the New Jersey experiment has contributed greatly to our understanding of the incentive structure embodied in an income-tested transfer program. Thus, in devising a workable set of rules, the experimenters have been forced to come to grips with nearly all of the problems which will face the administrators of a national program. Their intimate knowledge of these structural features can contribute substantially to the development of the operational rules for the national program.

Mr. BYRNES. That some of their findings could be quite helpful to us as we look to your family assistance program, even though it is a little different concept.

One thing, Mr. Secretary, before I ask the \$64 question for these charts over here.

Secretary SHULTZ. It really isn't that big a deal.

Mr. BYRNES. There is one thing that does worry me and I think you may be able to put me a little at ease.

When you have the employment service determining job suitability, I think we must have, as we normally do have under the Unemployment Compensation Act, a definition of suitability that is considerably more liberal. You can more easily say that a job isn't unsuitable when you have a person with a basic skill who has been with the labor market for a considerable period of time. Your tendency is not to move him down but to keep him on the same level at least as far as occupational income and so forth.

My question is, do you envision that the question of suitability will be of less significance, and considerably less significance, particularly

for those who have not been fully attached to the labor market for any length of time?

Do you get the point? Maybe I have been confusing in the way I have asked this question, but do you have a suitability test for a person who has been generally associated with the market as to whether he will get unemployment compensation or whether he has to take this particular job. We are generally, in some cases, I think, too insistent that the job opening be at least as equal to the old job that he left or even better, in some cases. But are you under a different philosophy when you are talking about these kinds of people?

Secretary SHULTZ. Yes, different in some respects, although the concept, I think, does have sort of cross applicability.

First of all, we think that for the most part people will want to get on to training and on to jobs and we are not going to have a big problem of applying sanctions. It isn't a big problem in unemployment insurance. It doesn't account for very many of the cases.

We don't think that it is going to be a big problem here, and this initial very early experience, of course, with the WIN program suggests that that is the way it is going to work out. In applying suitability to this kind of population, of course, it is going to be case by case and you will have differences from the unemployment compensation type of thing, but maybe the same sort of things will have to be taken into account.

I talked, in my testimony, about the wage side of it, but there are many other aspects. The question of the impact of the work on a person's health, for instance, is something that is looked at.

Mr. BYRNES. Oh, those aren't the things I am talking about.

Secretary SHULTZ. There are a lot of different types of things you would take into account.

Mr. BYRNES. Sure, you are going to have to find out whether the job is the kind of a job that the worker can handle and whether his physical situation permits him to work in a very heavy lifting job and a Congressman's job is one of the things I have been able to find where there is not too much heavy lifting.

Secretary SHULTZ. I think you carry quite a load here in this committee.

Mr. BYRNES. We don't have to lift it. We just have to carry it.

But you still disturb me a little bit in your response, quite frankly, because we have today criticism of the Unemployment Compensation Act because people are drawing unemployment compensation despite a multitude of want ads. Let us always remember that any of these programs are going to rise and fall depending upon public support as to whether the taxpayer is being given a fair shake. I think most taxpayers have sympathy in doing what they can for the unfortunate, but there is a limit to that sympathy, particularly if they feel the individual isn't doing all he can do in his own best interest. If we then have a very loose definition of what is suitable and make it more subjective than objective, in terms of the individual person, we are going to have some people who are going to have a pretty high opinion of what kind of job is a suitable job for them.

Yet if they are then receiving family assistance and we still see big want ads for employees, not necessarily in the category of very high skills, we can get into some very serious problems.

That is what concerns me.

Secretary SHULTZ. I think that is a fair point and, of course, it is not the individual who decides whether the job is suitable. We will decide whether the job is suitable.

Mr. BYRNES. It comes right down to what is the mental attitude and what kind of instructions are going to be given to the employment service people. They have their instructions now and they know pretty well what is "suitability" as far as unemployment compensation is concerned. Under unemployment compensation you set up on an entirely different basis, a special fund. It is an employer-financed operation with a special tax, and a trust fund. But here you have what is still a welfare program and it is a burden on the general taxpayer and on the question of what is suitable I would certainly hope that we would not apply the same general tests as you apply in unemployment compensation.

Secretary SHULTZ. No, but, at the same time, I think we can learn from the unemployment compensation experience and that experience also does suggest that it is possible to work your way through this problem successfully.

I think it should be noted that we are not only talking about placing a person on a job, but also providing training opportunities for the person, and once you have provided some training opportunities presumably for work that is of a nature available in that community, then you have kind of got that person to a level of skill and ability so that he or she can move into that job, so I think that is a way of making it easier to define what the notion of suitability is.

I think that is something we will be able to handle all right and, while I have said I don't think it is going to be a problem with any significant proportion of the cases, I still think it is extremely important to keep the requirement there just because it tends to be a kind of backup for the sorts of incentives that we think will account for most all of the activity here.

Mr. BYRNES. Oh, let me make this clear right now. I don't think there are too many members of the committee that feel that everybody on welfare enjoys being on welfare. I think that the great mass of these people today on aid to dependent children want to get off, want to be able to work, want to have some independence as far as their economic means are concerned and improvement.

It is the unusual case really that we have to address ourselves to, it seems to me.

Secretary SHULTZ. That is right.

Mr. BYRNES. And we have to address ourselves to the unusual primarily because it is the bad apples that can cause the whole system to topple. That is why I think we are all concerned in many of these cases, and while our questions direct themselves to particular cases that I am sure are exceptional cases. I think it is not that we think that this is a prototype of all the welfare cases any more than the 14-year-old husband with a 13-year-old wife and a 6-month-old baby. Such a case is certainly not the prototype.

But I think the reason we direct ourselves to so many of these things, because it is the exception that very often results in emotionalism that may bring the roof in on the program for everybody. So in all of these cases I think we have to direct ourselves to being sure that we don't

permit those kinds of things to develop where the average individual or you and I would say, "Well, this isn't what this system was designed for."

Secretary SHULTZ. Right.

Mr. ULLMAN. Mr. Byrnes, would you mind withholding at this time?

Mr. BYRNES. No.

Mr. ULLMAN. Mr. Secretary, I would be hopeful that we could get to your charts about 2 o'clock this afternoon. Could you be here?

Secretary SHULTZ. Yes, indeed.

Mr. ULLMAN. We will do our level best to make sure that you are out of here by 4. I would hope that it would be possible before that, but we will make every effort to make sure that you can be away by then.

Secretary SHULTZ. Thank you.

Mr. ULLMAN. The committee will recess until 2 p.m.

(Whereupon, at 12:20 p.m., the committee recessed, to reconvene at 2 p.m., the same day.)

AFTERNOON SESSION

Mr. ULLMAN (presiding). The committee will come to order.

Mr. Secretary, pending the arrival of Mr. Byrnes, I have a few questions that I would like to put to you.

There are some questions that remain unanswered as to how this program is going to work, and I know when you get to the charts—hopefully as soon as Mr. Byrnes gets back we can do that—I hope some of them will be answered, but as I was listening to Mr. Byrnes this morning question you with respect to the operation of the WIN program it appeared to me that what we were in effect doing is federalizing the responsibility for work-training.

It was called to our attention that there is a wide discrepancy between New York and California, and that in effect you are recommending that we unify the treatment in all the States to avoid that discrepancy. Is that true?

FURTHER STATEMENT OF HON. GEORGE P. SHULTZ, SECRETARY OF LABOR; ACCOMPANIED BY HON. ARNOLD R. WEBER, ASSISTANT SECRETARY FOR MANPOWER; HON. JEROME M. ROSOW, ASSISTANT SECRETARY FOR POLICY DEVELOPMENT AND RESEARCH

HON. JOHN G. VENEMAN, UNDER SECRETARY, HEALTH, EDUCATION, AND WELFARE; ACCOMPANIED BY HON. ROBERT M. BALL, COMMISSIONER OF SOCIAL SECURITY, HON. MARY E. SWITZER, ADMINISTRATOR, SOCIAL AND REHABILITATION SERVICE; HON. ARTHUR E. HESS, DEPUTY COMMISSIONER OF SOCIAL SECURITY; HON. ROBERT E. PATRICELLI, DEPUTY ASSISTANT SECRETARY; HON. HOWARD A. COHEN, DEPUTY ASSISTANT SECRETARY; HON. CHARLES E. HAWKINS, SPECIAL ASSISTANT TO THE ADMINISTRATOR, SOCIAL AND REHABILITATION SERVICE; HON. ROBERT J. MYERS, CHIEF ACTUARY, SOCIAL SECURITY ADMINISTRATION; HON. JULE M. SUGARMAN, ACTING DIRECTOR, OFFICE OF CHILD DEVELOPMENT

Secretary SHULTZ. The big discrepancy was then the referral for registration, you might say, from the welfare side, the work side, and

training side of this, and the way the present system operates, as I understand it, is the welfare agency in the State interprets the question of whether or not a person should be referred to training and work, and the interpretations they make of the law very obviously, and I think this is what the numbers that Mr. Byrnes had brought out, have gone about that in really startlingly different ways.

Now, what would happen under the administration proposal is that the Social Security Administration would essentially administer the Federal part of this, and instead of having a sort of generalized, somewhat ambiguous word as the touchstone for who would be registered, there are these set categories of people who would be exempt from registration, and our feeling is that these can be put pretty operationally, or have been put pretty operationally, so that you get the ambiguities out of it.

Now, once a person in our proposal is referred to training or referred to the Employment Service and registered, at that point we work on the employability plan for that individual, and that takes place in a particular office of the Employment Service, and there we have the structure, we hope, of the Manpower Training Act, which has also been proposed to the Congress, under which we are working with the States and the communities, helping with them on a joint basis in the development of a manpower plan and arrangements for its execution with the Employment Service being involved, and with the Secretary of Labor being able to set national guidelines for how that would actually work in local offices, so at that point we would be working with them State by State and locality by locality on the actual training side.

So I think perhaps a way of putting it is that the question of whether or not an individual would be registered would be done on a national level by the Social Security Administration, and then the actual implementation, once a person is registered, of training and the employability plan and so on would go office by office, with us having an involvement there.

But we are looking for the development of a lot of initiative in the local areas with the Manpower Training Act.

Mr. ULLMAN. Is it not true that in your administration of the Manpower Training Act you work now with the welfare system in its implementation? Is this not true?

Secretary SHULTZ. That is right, but the existence of ambiguity about whether a person is going to come over and be registered or not is one reason for the tension. We think the working relationship between these two functions, so to speak, will be much better when there is a cleaner kind of demarcation on who is referred.

Mr. ULLMAN. Let me ask Mr. Veneman, then.

Mr. Secretary, then, from this, I would gather that the functions now being exercised by the welfare office will be taken over by the Social Security department with respect to this work registration criteria. Is that right?

Mr. VENEMAN. Or whatever agency administers the program. Presumably, as we are visualizing it at this point, it would be the Social Security Administration.

They would determine whether or not these persons would be exempt because of one of the six reasons for exemption. If they were not exempt, then they would simply be registered, and from that point on the referral would be made by the Department of Labor.

Mr. ULLMAN. In other words, you are still going to have welfare offices and your social services offices, essentially as they are today in most States?

Mr. VENEMAN. For services, that would be true.

Mr. ULLMAN. For services?

Mr. VENEMAN. But, you see, this comes under the eligibility determination.

Mr. ULLMAN. Welfare today handles that, however.

Mr. VENEMAN. That is right.

Mr. ULLMAN. But you would transfer that to the Federal Government, so you would still have the welfare agency there, the social services agency there, as it is today, but you would add a new dimension in that you would put the social security system down into the local level to actually screen the individuals with respect to work-training. Is that right?

Mr. VENEMAN. Essentially what they would do is make the eligibility determination. Screening, in that sense of the word, would be accurate. They would not screen them as to what kinds of social services they would need.

As a part of the eligibility determination would be the question, which is outlined in the legislation, as to whether or not their name should be submitted to the Employment Service, to be registered with the Employment Service for placement in job training or employment.

I think Mr. Ball, who has had some of his staff working on the precise administration of this, as the concept actually could work through the Social Security Administration, might elaborate.

Mr. ULLMAN. I would think the social security system does not have the personnel or the offices to handle this kind of a problem now, and I am wondering what the Social Security Administration's plans are for an administration of this program, which seems so wide in scope.

I think we have a big enough bureaucracy now, Mr. Ball. How much bigger is it going to get if we add these functions to your organization?

Mr. BALL. Mr. Chairman, this would be a major administrative task. There are certain facilities that we now have that would be quite useful in the administration of the program.

I can see certainly savings involved in the common use of computer facilities, and the common use of various kinds of staffs in the central office, and in certain of the district offices I would think they would be in a position to take both kinds of applications.

But you are quite right, that the number of district and branch offices that Social Security now has—800—would for this program need to be expanded quite substantially in order to have facilities generally available under the family assistance program.

Now, fortunately, such an expansion would also turn out to be a rather useful thing from the standpoint of the existing social security program.

We have about 3,500 contact stations which are less than full-time social security offices today, to which—out of our regular 800 district offices—field representatives go on certain days of the week, as I am sure you realize—

Mr. ULLMAN. Right.

Mr. BALL. Sometimes it may be twice a week, or three times a week, or twice a month. This really has never been a very satisfactory part of our service.

For those part-time offices, you cannot rent a place, obviously, and be there only once in a while, so we have had to seek out what space we could have granted to us, and frequently it is far from satisfactory.

One thing I would see, then, in the large expansion that would be necessary for the family assistance program, is that you could not only use the 800 full-time offices we now have for social security, but in the many, many offices that would be primarily family assistance, you would then have good space and could make provision for the taking of social security applications as well, which would solve one of the problems in the present social security program.

It is difficult, of course, to make a precise estimate of the staff that would be needed, as I am sure you realize, Mr. Ullman, when there is no basis as yet for being sure how much of the supplemental plan will be done jointly by the Federal Government, and how much would be done by the States. But in a rough ball park way, I would expect that we might well need for this program something like a 50-percent expansion in staff.

Mr. ULLMAN. Now, tell me, and either you or Mr. Veneman can answer this, this additional function we are talking about now is the registration screening for work-training?

Mr. BALL. Yes; that would be part of it.

Mr. ULLMAN. But, now, would this office also do the so-called spot checking on the family allowance program?

Mr. VENEMAN. I would conceive of them being responsible for doing the sampling on the eligibility. They would not be involved in the social services aspect.

Mr. BALL. In the cash benefit area, Mr. Ullman, just to enlarge on the Secretary's response, the bill allows for a variety of administrative arrangements to be worked out with the States, and perhaps the pattern that should be assumed is that on the family assistance program proper, I would expect it very largely to be a Federal administration—that is, a determination of eligibility, this referral function, the continuing maintenance of the beneficiary rolls, and the paying of the checks, and so on—but we do have very much in mind the possibility of working out with the States contractual arrangements where they might perform for the Federal Government certain kinds of home visits and perhaps be involved in some of these determinations of family composition and resources.

Mr. ULLMAN. Who would do that?

Mr. BALL. The State welfare department could well do it under contract with us, and the bill provides for that possibility.

On the other hand, as the Secretary suggests, a continuing check on initial declarations in a sample of cases could well be performed by the Federal Government itself.

Mr. ULLMAN. Let me tell you one thing, Mr. Secretary. This sampling business just is not going to work out the way you plan.

On the local level, when a family fills out a form, and they start receiving a Government check, and the neighbors start hearing about it, you are going to run into exactly the same problem that we have in welfare all over the country, and that is that the pressure is going to be on you to examine that particular case and find out why that neighbor is getting a Government check. In my judgment, there is no way in the world you can run this program on a sampling basis.

And what I very much fear is that, in addition to keeping the present State welfare offices open, you are going to set up a duplicate, overlapping system of Federal welfare offices in every community in this land.

In place of streamlining your program, which I had hoped we could do in remodeling the whole welfare system, that we could take the poverty program and take the welfare program and put all of these things together into a simple administrative unified program, in place of that, we are adding another bureaucratic level, injecting the Federal Government into the ingredients of welfare in every community in the land, setting up all kinds of problems between the State welfare offices and your own welfare administration offices under social security, and in addition to that, having the Department of Labor on some kind of a basis working with both of them.

Tell me, Mr. Secretary, Mr. Shultz, in expanding your work incentive program under the Department of Labor, do you anticipate that you would have to establish more Labor Department offices throughout the country, or at least expand your personnel to make this thing work right?

Secretary SHULTZ. We are located all around the country. The employment services are all over. They would be a principal vehicle, here.

We have proposed a simplified structure for administration of the training programs of the Federal Government in the Manpower Training Act, decategorizing funds and decentralizing to a considerable degree, in the pattern that I mentioned, the administration of the funds.

Of course, if we add a great deal to the number of people who are involved in training, then inevitably it is going to take some additional people to do that, but fundamentally I think the administrative office arrangements are there now, and while there will be some expansion, we don't look upon that as a major thing.

Let me just comment, if I may, on this other question, since the Labor Department is involved in that, too, as a process.

As I understand the situation, in a sense you have three different functions that we are talking about, here. There is the function of social service, performed normally by social service workers, and they work with a family, and they try to help that family in various ways.

That is a type of function that the welfare people think of, I believe, as the primary thing that that do. That is what their main skill is.

Then there is the function of identifying people who are entitled to a check under this system, and determining which of those people should register for training and/or work.

And then there is the function of developing an employability plan, training, and counseling and getting people on the jobs, and so forth, and in the structure here, we tried to divide these three things off from each other, and the central one, of determining eligibility for payment, and determining the question of whether a person should register or not, basically, is done on the same data about the individual, and so it seemed to us sensible that this should be done by the Social Security Administration, and as an identifiable function leaving the welfare people free to go about what is their main avenue of business.

That I think had a great deal of appeal, also, as a more dignified method of doing this, and making it sort of similar to the filing of a statement about your income tax.

Mr. ULLMAN. Let me just comment before I recognize Secretary Veneman.

We had extensive testimony from people in social services during our ways and means hearings, in which they testified that the people we are really talking about are hard-core employed. They are not the kind that are subject to classroom kind of job training. They need very individual attention. They need on-the-job training. They need these social services in order to get them into habits of getting up in the morning, and the wives getting their husbands out, and cooking breakfast and getting them off to work, getting into an organized regimen of active participation in society.

Most of these people have no home organization, and are not mentally or physically adapted to constructive participation.

When we have a 3½- to 4-percent unemployed rate in the country, these are mostly hard core, that need to be trained from the ground up. It is not just a case of classroom training.

I don't know how in the world you can disassociate social services from either identification or training itself.

It just seems to me all of these are part of one package, and we struggled with this problem when we had the bill up before.

I am afraid that by splintering it into functional offices we are getting ourselves into a much worse mess than we have right now.

Mr. Secretary.

Mr. VENEMAN. Just to comment on that particular point, perhaps one of the biggest problems that we are confronted with right now in the field of social services is that we are not making the best use of a social worker's time, and I think that probably the testimony you mention was developed by those who were expressing opinions with regard to social services.

A great deal of their time is not really spent trying to do something for that family, to change their attitude or improve their environment, but spent upon paperwork and investigative procedures and determination of eligibility.

There are in fact, as Secretary Shultz has indicated, three responsibilities, here, that could occur for each person.

There is an eligibility determination responsibility. We are suggesting that this can be handled through the Social Security Administration, by the States contracting with them, but we have not precluded the possibility that it could work the other way—that the Federal Government could contract with the State to do this job.

We are not suggesting that the social services be depreciated in any way. To get back to your point with regard to whether or not there would have to be constant monitoring, each one of these groups—if a person is in job training or in a work situation, the Department of Labor would certainly have a responsibility to notify social security if they had information that his income had increased. Those doing the social services for that particular family, if they had evidence of factors that would make the family ineligible for the program, they would have a similar responsibility. And of course in the eligibility determination, where the sampling would be taking place, if they discovered ineligibility they would have the responsibility.

So I think that you have probably as effective, if not more effective, control over those on the caseload than you do under the present system, where it is all up to one person, who is trying to do several jobs.

Mr. ULLMAN. Yes, but in the process of setting up a whole new Federal bureaucracy, and establishing all kinds of uncertainties between functions, I am afraid that inevitably what we are going to do in most States is eliminate the welfare offices altogether, the social services offices. This is going to be up to the State, is it not?

Mr. VENEMAN. We would assume that the States would be responsible for administering the social service aspects.

I think this is where there is either some confusion or some misunderstanding.

We are not setting up a new Federal bureaucracy. The Social Security Administration has 800 field offices. It does have over 3,000 other community contact offices, and they certainly demonstrated their ability to take on a new program when they assumed the responsibility for Medicare, title XVIII.

They are making claims payments now. They are paying out dollars right now in numbers of claims per month which will far exceed any claims payments or any money payments for this program.

Mr. ULLMAN. Let me warn you, Mr. Ball, that once you begin taking over welfare functions, you have an altogether different problem than you have at the present time administering the social security system.

And I well remember your testifying before the committee that one of your concerns has been that we confuse the social security system with the welfare system. Now, if you go to the same office to get both welfare and social security, you are going to convince everybody they are one and the same. It is going to create almost insurmountable problems in both social security and welfare, in my judgment.

Mr. BALL. Mr. Ullman, we do feel that this is an important problem. We will have to make absolutely clear that, although this will be a single administration handling this new program along with social security, they are two entirely different programs.

Now, there does exist the possibility of misunderstanding about that, and in all our actions, and in all the informational literature, I believe it has got to be stressed that this is an entirely separate operation from contributory wage-related social insurance.

But it does not seem to me that because of that fact we ought to give up quite important administrative advantages in building on what we already have when it comes to instituting a new benefit-paying Federal program.

For example, on the verification of earnings statements—I don't want you to focus entirely on this sample approach—we would intend to verify certain items on a 100-percent basis. For example, among those who are at work we would check the wage reports to social security, and everybody on the family assistance program would be identified by a social security number. Thus you would have quite an easy check against those wage reports. Not only that, but almost all other governmental sources of income now, such as the income tax, railroad retirement, and so on, also are identified by social security number, and make for easy mechanical matching. The sample would be over and beyond that, on the question of total income. Moreover, if the sample disclosed that there were errors and problems in certain parts

of the administrative process, you would not necessarily stay on a sample basis for those points.

One reason we would have the sample is to make us aware of places where there are difficulties, and then we would move into those areas with a much more intensive review or investigation.

Actually, under social security today, we have a sample of our initial determinations that is very intensively redeveloped in order to do exactly what I am saying—to make sure that our presumptions and our policies are not vulnerable to abuse in any area. When we turn up a problem, then we change the administrative procedure on a 100-percent basis. I would envision that kind of thing here, recognizing that there are in several respects somewhat greater difficulties in the administration of this new program than in the existing social security program.

Mr. ULLMAN. You have just confirmed my concern, that you are going far deeper into this welfare business than you had originally intended.

This is going to be a case of checking 100 percent, as you have indicated, for recipients of family income allowance?

Mr. BALL. Well, 100 percent, Mr. Ullman, on the records that exist in the Federal Government, by an automatic computer checking.

The sample would go beyond that, into all sorts of income.

Mr. ULLMAN. Are you satisfied that the reports available to you now on domestic employment, and all other kinds of employment, are adequate, so that you can just go to Government records, and you don't have to go out in the field and do checking?

Mr. BALL. Obviously reporting is not 100 percent, and that is why, over and beyond the checking of records, you would need, at least on some sample basis, to do an intensive check in the field, as you say.

But the reporting in the areas where it is most difficult under social security—household employment and parts of the farm employment—is nevertheless quite good, as far as people who have a continuing connection with a particular employer are concerned.

Our studies have shown that in household employment, where the individual returns to the same employer over any significant period of time, reports are made for a very high percentage of what is legally covered.

The problem is where the household employee frequently changes employment, or the household employer hires a different person very frequently. Our sample studies indicate that there is a lot of underreporting in that area.

Mr. ULLMAN. Thank you.

I am not going to pursue this further. I think it is the crux of a great part of the problem that we have facing us here.

Secretary Shultz must leave at 3 o'clock. It is not a matter of his own doing, but he is the chairman of a plenary session of the Third Conference of Labor Ministers under the Organization of American States, which goes into session shortly after 3 o'clock. I would say this, Mr. Secretary: We will excuse you, on the basis of your being available at some future date.

Mr. VANIK. Mr. Chairman, may I have just one question?

Mr. ULLMAN. Yes, I would recognize you for that purpose.

I am not going to assume the prerogatives of the chairman, but I am sure that at some future date—we begin our public hearings, I un-

derstand, Wednesday, and Secretary Finch will be here Tuesday—we will want you back.

I have a lot of questions to ask, and I know other committee members will. We may submit some questions to you in writing, and in those instances the record, without objection, will be held open.

I will yield to Mr. Vanik.

Mr. VANIK. Mr. Secretary, on page 7 of your testimony this morning, you deal with registering the unemployed person, dependent person, registering with the employment service. You say that he must accept suitable employment.

Now, that bothers me a little bit, because I think that since this is a national provision of the Federal law, we ought to say that such employment should be at not less than the Federal minimum wage.

What objection would you have to that, because I can see under circumstances where, if it were to be underpaid employment, or employment at a salary rate or wage rate that would not permit a person to exist, that this law could have the effect of driving people into a form of slavery, and they might have to go work for a wage that is not a decent wage.

Now, what objection would you have to providing or being sure in the law that the wage offered would be not less than the Federal minimum?

Secretary SHULTZ. Our intention is to establish guidelines, and one of them would be that a suitable job would have to pay the applicable minimum wage, or the prevailing rate, whichever is higher.

There would be a number of other types of things, and on the definition of "suitable," I don't think you would want to try to spell that out in great detail in the law, because it is kind of case-by-case application in particular circumstances.

Mr. VANIK. Is there any reason why we cannot have those standards written into the law, and say, "and not less than the Federal minimum"?

Secretary SHULTZ. I don't have any objection to that at all, as long as it is clear enough that that is not the only test. There may be other tests.

Mr. VANIK. I just thought among the tests, that the job offered ought to be at a salary rate or a wage rate which will permit the person to——

Secretary SHULTZ. I think that the statement that I made was, and it is in my testimony, that the job should not pay less than the applicable minimum wage law. There are areas of employment not covered by the Federal minimum wage. Many of those are covered by State minimum wages, so that whatever is applicable.

Now, there are some places where there is not anything applicable, and our standard there, in any case, also, would be to look at the wages prevailing in a community, and that is a more general kind of statement than just the applicable minimum wage.

Mr. VANIK. Well, I am still not clear on this. If it is the applicable minimum wage, under what you have just said, it would be less than the Federal minimum.

Secretary SHULTZ. Yes, that is correct.

Mr. VANIK. That is exactly the point. I felt that we should not ask people under the circumstances of this Federal program to work under

circumstances or wage standards that are less than the Federal minimum.

Secretary SHULTZ. What we are saying here is that we are not enacting minimum wage legislation here. We are just following it, whatever it is, and if the Federal Government chooses to expand the coverage, for example, of the minimum wage, well, it expands the coverage, and that would be reflected in this. But if you choose not to, you choose not to, and we are not trying to do it by the back door in this legislation.

Mr. VANIK. By these provisions, though, we are deciding whether or not a person should be entitled to this financial help, and I think that it would seem very desirable to provide that the job offer, or the available employment, should be not less than the Federal minimum wage, which is, in my judgment, not any more than such a person ought to have.

Now, what is your position? Do you object to this kind of an amendment?

Secretary SHULTZ. I would not want to see a statement that under no circumstances should a person be referred to a job at less than the Federal minimum wage, because I think that would be using this legislation, in effect, to write minimum wage legislation.

If you want to expand the coverage of the minimum wage, do that directly.

Mr. VANIK. I don't think it would have quite that effect.

Among the lowest wages allowable under State laws, what would be the minimum wage that such a person might have to accept under present conditions?

Secretary SHULTZ. Well, they vary quite a lot.

Mr. VANIK. Well, what is the lowest?

Secretary SHULTZ. There are some States that don't have any minimum wage law, I am sure.

What we are proposing is the existing WIN concept. We are just taking that concept, as the chairman pointed out this morning, that we have borrowed from your earlier work, where we thought it was good, and we think this is a good provision. We borrowed that, and essentially that is what we are talking about.

Mr. VANIK. What is the lowest prevailing wage in some communities?

Secretary SHULTZ. The prevailing wage, of course, varies by the occupation and industry you are talking about.

Mr. VANIK. What is the lowest in any? Because we are dealing with people that will be probably at the lowest part of the wage bracket.

Secretary SHULTZ. I am not equipped right here to give you a State-by-State description of the minimum wage law, and what that holds. I could provide that for the record, however.

Mr. VANIK. What would it be, for example, in Mississippi?

Secretary SHULTZ. I don't know what the Mississippi situation is, that is, I don't know legally whether there is a minimum wage in Mississippi, and if so, what the minimum wage is.

Mr. VANIK. What is the lowest prevailing wage? What is the wage for cotton pickers?

Secretary SHULTZ. I just don't happen to know what the wage for cotton pickers in Mississippi is right now, but we can find what information we have on that.

Mr. VANIK. Do you have any wage for cotton pickers, Mississippi, Alabama, anywhere?

Secretary SHULTZ. People say there is this, that, and the other.

I think this is information that there are surveys on. What you want is the result of a survey.

Mr. VANIK. Don't we have any idea what is down at the bottom?

I am concerned that we might be, under the provisions of this law, ordering people to work for 50 cents an hour. I don't know.

Secretary SHULTZ. No, but let me remind you that, as I said—

Mr. VANIK. Under penalty of losing welfare.

Secretary SHULTZ. What I am suggesting is simply using the concept that this committee developed in their 1967 amendment, that is all. We are just drawing on what you did.

Mr. VENEMAN. I think I can essentially answer for one State, Mr. Vanik. In California—

Mr. VANIK. I know California is exceptional.

Mr. VENEMAN. We have a law applying to women and minors working in agriculture, and I believe that is now \$60.

Mr. VANIK. You are way ahead of the entire Nation, and I want to commend the State.

Well, I would appreciate having inserted in the record at this point, if we can, Mr. Chairman, the lowest prevailing possible wages that will be allowable under this law, and which by a person refusing might cause him to lose his entitlement.

Secretary SHULTZ. That is not the kind of information that one can have.

Mr. VANIK. Why, sure.

Secretary SHULTZ. What you do in administering something like this is, you are in some locality, wherever it is, and you ask yourself with respect to some job which is in an industry and at a location and at a point in time, and in an occupation, what is the prevailing rate of pay in this job. And there are all sorts of aspects to figuring out what the word "prevailing" means, and it depends somewhat on the clustering of rates, and things of that kind, and you find that out at a particular time and place.

Mr. VANIK. What is it, for example, in these six or seven or eight low-wage States? What is the lowest industrial wage?

Can I have that?

Secretary SHULTZ. We can give you distributions of wages in industries not covered by the minimum wage, for example, I am sure.

Mr. VANIK. Because I think we ought to have some idea about what the individual will be confronted with when he finds a job offer that may be incredibly unrelated to the services he must render, or provide him nothing more but a chance of just having to face the alternative of either taking this tremendously impossible job at incredibly low pay, or losing his welfare benefit, thereby creating a condition of enslavement in the law.

Secretary SHULTZ. I think there are a lot of aspects to a job that could make it impossible, as we would see it, and unsuitable, that are perfectly aside from the question of what wage is paid, having to do with safety, health, and matters of that kind, distance, and what we are really pushing for here is the kind of training capability and supporting service capability that will allow an individual to have a

chance to have the skills and abilities necessary to get into a good paying job.

That is what we are aiming for here.

Mr. VANIK. Is your time up? I have one other question.

Mr. ULLMAN. Without objection, the record will be open.

Mr. VANIK. Yes, if you can get that in the record.

(The information referred to follows:)

Table 3 contains a listing of the State minimum wage rates now in effect. Thirteen States do not have any minimum wage laws or orders in operation. In 26 of the remaining States, the minimum wage rates are less than \$1.60 an hour—the rate currently applicable to most employees covered by the Fair Labor Standards Act.

TABLE 3. STATE MINIMUM WAGE RATES, AS OF OCT. 21, 1969

State	Minimum rate ¹	Effective date	State	Minimum rate ¹	Effective date
Alabama.....	None		Montana.....	None	
Alaska.....	\$2.10	Sept. 1, 1968	Nebraska.....	1.00	Oct. 23, 1967
Arizona*.....	.60	Feb. 12, 1948	Nevada.....	1.30	Apr. 10, 1969
Arkansas.....	1.00	Jan. 1, 1969	New Hampshire.....	1.60	Feb. 1, 1969
California*.....	1.65	Feb. 1, 1968	New Jersey.....	1.50	Jan. 1, 1969
Colorado*.....	² 1.25	May 1, 1966	New Mexico.....	1.60	Feb. 1, 1969
Connecticut.....	1.60	July 1, 1968	New York.....	1.60	Feb. 1, 1968
Delaware.....	1.25	Feb. 1, 1968	North Carolina.....	1.25	July 1, 1969
District of Columbia.....	³ 1.80	July 6, 1969	North Dakota*.....	1.25	Mar. 18, 1966
Florida.....	None		Ohio*.....	1.25	Sept. 6, 1966
Georgia.....	None		Oklahoma.....	1.00	Aug. 1, 1965
Hawaii.....	1.40	July 1, 1969	Oregon.....	1.25	Feb. 1, 1968
Idaho.....	1.25	Feb. 1, 1969	Pennsylvania.....	1.30	Feb. 1, 1969
Illinois ⁴	None		Puerto Rico.....	⁵ 1.60	Feb. 1, 1968
Indiana.....	1.25	July 1, 1968	Rhode Island.....	1.60	July 1, 1968
Iowa.....	None		South Carolina.....	None	
Kansas ⁴	None		South Dakota.....	1.00	July 1, 1969
Kentucky.....	.75	Sept. 1, 1961	Tennessee.....	None	
Louisiana ⁴	None		Texas.....	(⁶)	(⁶)
Maine.....	1.60	Oct. 15, 1969	Utah*.....	1.15	Jan. 1, 1966
Maryland.....	1.30	Feb. 1, 1969	Vermont.....	1.60	Apr. 7, 1969
Massachusetts.....	1.60	Feb. 1, 1968	Virginia.....	None	
Michigan.....	1.25	Jan. 1, 1967	Washington.....	1.60	Jan. 1, 1968
Minnesota*.....	1.15	Mar. 2, 1962	West Virginia.....	1.00	Jan. 1, 1967
Mississippi.....	None		Wisconsin*.....	1.30	July 1, 1968
Missouri.....	None		Wyoming.....	1.30	Jan. 1, 1969

*States with asterisks cover women and minors only. Other States cover men also.

¹ Minimum rate shown is the highest rate established for full-time adult employees under the statutory minimum wage law or minimum wage order.

² Rate applies only to employees subject to beauty service wage order. Rate for employees subject to other wage orders is \$1.10 an hour.

³ Rate applies to workers in retail trade occupations only. Rate for most other workers is \$1.60 an hour.

⁴ State has established a wage board law, but does not have any minimum wage rates in effect.

⁵ Rate applicable largely to certain occupations in large retail establishments and industries primarily engaged in interstate commerce such as the banking, transportation, tobacco and alcoholic beverage and certain other manufacturing industries.

⁶ The law became effective on September 1, 1969, with the exception of the \$1.25 minimum wage which becomes effective on February 1, 1970.

Information on wages for uncovered jobs is far from complete. These jobs are concentrated in agriculture, retail trade, and domestic service.

About 600,000 nonsupervisory workers in agriculture, forestry, and fisheries are not covered by minimum wage regulations. A Department of Labor study sent to the Congress early this year indicates that average hourly earnings of hired farmworkers not subject to the Federal minimum wage were \$1.27 for the Nation as a whole. The study also contained earnings data for May 1968 for four broad regions of the United States—the Northeast, South, North Central, and West. Average hourly earnings were lowest—\$1.08—in the South, the region with most of the States that do not have minimum wage laws.

Approximately 2 million workers in retail trade are not covered by either Federal or State minimum wage laws. A survey of retail trade, made in 1966, found that of the employees of retail establishments not covered by the minimum wage, 56 percent (including 71 percent in the South) earned less than

\$1.60. Since that time average hourly earnings of all workers in retail trade have risen about 40 cents, or about 20 percent.

There is no reliable information on the hourly rates of domestic workers, who comprise one of the largest groups—about 2.5 million—not covered by either Federal or State minimum wage legislation. Out of 49 cities for which information on average pay for an 8-hour day for domestic workers was available, 13 had averages of \$10 or less (\$1.25 an hour) and 9 averaged at least \$14 (\$1.75 an hour).

As we have stated, we will use a prevailing wage standard where minimum wage laws do not apply. In the case of domestic work in Mississippi at \$4.00 a day, assuming that to be the prevailing rate, we would have to look at the specific situation and make a determination. We would have to take into account the quality of the jobs that are being offered, for there are a lot of domestic jobs that really do not meet the needs for regular employment.

For example, we do not want to force people to take jobs on the basis of just one day, or for one day a week. That won't help much in terms of getting a person off welfare. Generally, jobs with an individual household have serious drawbacks in terms of regularity of employment and the availability of fringe benefits, in addition to the fact that a high proportion of women think this kind of work is demeaning. Such jobs are going to be the very last on the list in terms of priority, and we may have to set up some standards on job quality in this area, because of the great variability among households and conditions of work.

Mr. VANIK. Now, on page 13 of H.R. 14173 you provide for a child being under the age of 21 and attending school.

Is there any reason why we could not make that 22, to cover the child through the normal 4-year college period?

I am thinking that might include—

Secretary SHULTZ. You are worried about a student getting knocked out of college?

Mr. VANIK. I am thinking about a child in his last year of college being knocked out by the language of subsection (2) of subsection (b) on page 13.

That may affect some of the other factors in the bill, but I thought we ought to, wherever possible, deal with the realities of the situation, in which a child attending college is usually of age 22 by the time he is finished with the 4-year college.

Secretary SHULTZ. We can.

Mr. VANIK. Just deal with that?

Secretary SHULTZ. We can just deal with that. I think the problem is the older you make it, the more you get into post-graduate work, and before you know it, if you are not careful, you know, a lot of people going to school will make a career out of it and stretch it forever.

Mr. VANIK. I don't intend that we should take care of it for graduate students. I am thinking about the 4-year college.

One final question. Do the provisions of this bill have the effect of driving a young adult out of his home in order to keep him from being counted in the support factor of his family?

For example, with respect to the adult child who still lives in his home and continues to work, will the provisions of this bill have the effect of forcing that child outside of the home into his own family unit?

Secretary SHULTZ. There is no requirement, no forcing out in the sense that fathers are now forced out of the home by the way the present legislation reads.

However, I should make this point, and I think that it is an important point. As long as you have a marginal rate of taxation above zero, that is, that as earnings increase, you reduce welfare at all, and

you must have that kind of a situation in any scheme that you think up, as long as you have that, you have some incentive for a person to remove himself, if he is earning, from that household, in order for those earnings not to be counted.

That is a part of the logic of the situation that there is no way around.

Mr. ULLMAN. Mr. Secretary, I promised you would get out at 3 o'clock.

We appreciate very much your being here, and subject to your being available on call, we will be happy to excuse you.

Secretary SHULTZ. Thank you, Mr. Chairman.

I appreciate your courtesy in letting me go back to that conference, and, as you know, I was quite ready to stay here, but I think it is worthwhile to go to it.

Let me say that I welcome the chance to appear before this committee on this subject. I think this is a very important piece of legislation.

I sense a certain skepticism or hostility in some of the questions toward this bill. I think it is a very good thing, and I want very much to have a chance to come and sit here and respond to your questions and thrash this out, and I am sure you will show us some things that ought to be improved upon, and at the same time I hope we can convince you that this is as good a piece of legislation as we think it is.

Mr. ULLMAN. There are a lot of unanswered questions, and we will look forward to your coming back, sir.

Secretary SHULTZ. Thank you very much, and at the appropriate time, one of these two gentlemen will unveil these terrific charts. They are sensational.

Mr. ULLMAN. Thank you again.

I will recognize Mr. Schneebeli.

Mr. SCHNEEBELI. Thank you.

I would like to support the statement that Secretary Shultz just made, in that he thought the thrust of this legislation was in the right direction. It certainly appears to be improvement on what we have at the present time.

I am not sure to whom to address some of the questions, but I will throw them out and somebody can grab them.

As you probably are aware, we are getting a lot of mail from people who express some apprehension and concern about this annual income approach, and I was wondering how your proposals differ from the guaranteed annual income concept, which does not seem to be meeting with much approbation.

Mr. VENEMAN. Actually, it is distinguished from a guaranteed annual income primarily in two respects.

First of all, we still retain the requirement of a family unit. In other words, there have to be children involved. It extends itself to the working poor. Excluded from the measure, of course, would be single males and married couples without children who may be in the low income group.

The second thing that distinguishes it is the fact that there is the work requirement that Secretary Shultz spoke to.

I think in the normal context that people think of a guaranteed annual income as one which would assure a level of payment, regardless of circumstances, regardless of whether or not they are in the employment market, or whether or not he is capable of employment.

This bill requires employment. The work feature is strong. And we are directing the supplemental payments to the family unit.

Mr. SCHNEEBELI. I would like to ask whatever the question is required to get to these charts.

In that question, can you tell us the process of moving people from welfare to work? Is that the key to an explanation for your charts?

Mr. Rosow. We finally got the question, now that the Secretary has left.

Mr. SCHNEEBELI. Thank you. Somebody handed me the question.

Mr. PATRICELLI. Mr. Chairman, perhaps while the charts are being unveiled we could give a direct answer to Mr. Vanik's question about the impact of the statute in terms of driving a young adult out of the home in order that he may not have his income counted against the family's eligibility.

That is taken care of in section 445(e), in which it is possible for such an adult member of the family to segregate his income, under specifications prescribed by the Secretary.

He is not obligated to share his income with his parents. He has no responsibility under the law to support his parents, and the statute follows the general law.

Mr. VANIK. Will not be counted?

Mr. PATRICELLI. Will not be counted.

Mr. VANIK. All right.

Mrs. GRIFFITHS. Is he required to pay rent?

Mr. PATRICELLI. If he does pay rent, then it is counted.

Mr. VANIK. Whatever he contributes?

Mr. PATRICELLI. Whatever he contributes is counted.

Mr. VANIK. That will be all right.

Mr. BURKE (presiding). The Chair will recognize Mr. Bush.

Mr. SCHNEEBELI. I still have some more questions, but I would like to find out about this flow chart he has from welfare to work.

Which do you want me to do?

Mr. Rosow. With your permission, we would like to move the charts a little closer.

Mr. BURKE. I think you better move them closer.

Mr. SCHNEEBELI. Mr. Chairman, if we may have an explanation of the chart, then following it I have some other questions.

Mr. BURKE. That is O.K.

Mr. Rosow. You also have copies of this, members of the committee, in the hand-out that you were furnished this morning which might be helpful in following the flow, since some of the words are written rather small.

(The charts referred to follow :)

THE PLAN

1. Coverage:

- Families with children
- Uniform eligibility standards
 - Earnings ceiling of \$3920 per year for family of four

2. Amount of Benefits :

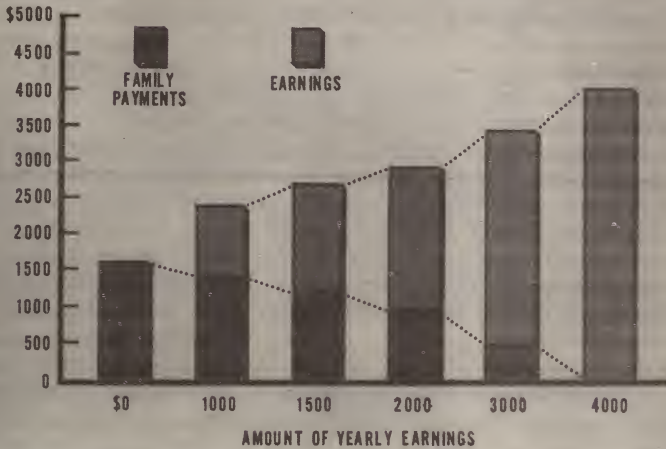
- With no earnings: Uniform Federal floor of \$1600 per year for family of four
- With earnings: Benefits reduced by 50% of earnings as earnings rise, but no reduction during first \$720 per year of earnings

BENEFIT SCHEDULE FAMILY OF FOUR

<u>EARNED INCOME</u>	<u>BENEFIT</u>	<u>TOTAL INCOME</u>
0	1600	1600
720	1600	2320
1000	1460	2460
1500	1210	2710
2000	960	2960
2500	710	3210
3000	460	3460
3500	210	3710
3920	—	3920

FAMILY* PAYMENTS DECREASE WITH INCREASED EARNINGS

COMBINED YEARLY
EARNINGS AND
FAMILY PAYMENTS



* HUSBAND, WIFE, AND 2 CHILDREN

II STATE SUPPLEMENTARY PAYMENTS

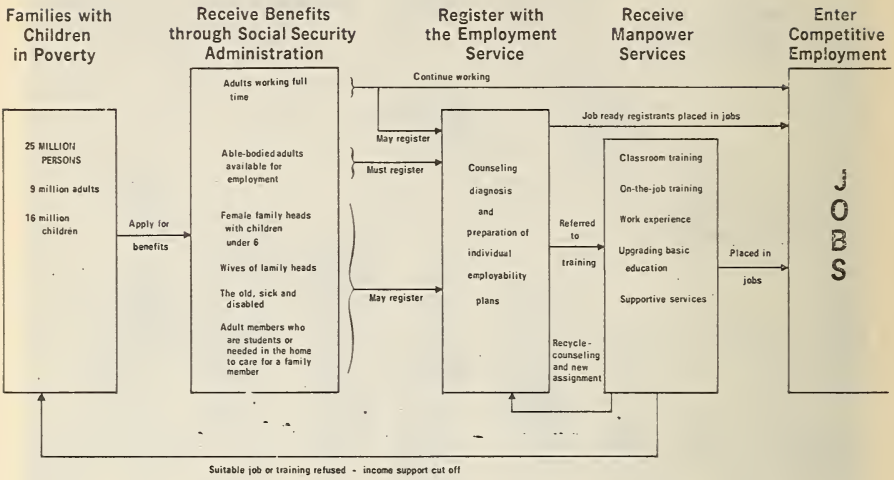
1. Maintenance of Benefits: States must supplement Federal payments (\$1600) where necessary to maintain existing benefit levels for dependent families.

- No State supplementation of the "working poor"

2. Maintenance of State effort, and fiscal relief: the "50-90 rule"

- Every State must contribute at least 50% of its present costs
- No State is required to contribute more than 90% of its present cost
- Thus, State fiscal relief will vary between 10 and 50% of present welfare costs, not counting new training, day care, and revenue sharing funds.

THE FLOW FROM WELFARE TO WORK



THE FAMILY ASSISTANCE WORK POPULATION

	(millions of persons)
Adults in Family Assistance families	9.0
Not required to register:	
Wives of family heads	-3.1
Female family heads with children under 6	-.9
Family heads who are ill, aged, or disabled	1.2
Family heads already working full time	-1.8
Other adults (19-21 year old students, aged or incapacitated, or needed in home to care for ill family member)	-.9
TOTAL REQUIRED TO REGISTER	1.1
TOTAL EITHER WORKING FULL TIME OR REQUIRED TO REGISTER	2.9

Mr. Rosow. This attempts to show in schematic form the flow from welfare to work.

In the left-hand column we have a brief summary of the families with children in poverty, the 25 million persons, 9 million of whom are adults, and 16 million children.

In applying for family assistance benefits, those persons will receive benefits only after they have registered with the Social Security Administration, shown in the second step, or actually the first step in the procedure, since the first square here is just a description of the universe or the population with whom we are dealing.

The people who will be required to register for work are in the sector here, marked in the green. The other individuals whom I will enumerate briefly are shown in more detail on the other chart, with regard to those who are exempt under the law from the work requirement, so you have adults working full time, of whom there are shown on the other chart 1.8 million people, and they will continue to work, so they are already in the job sector of the economy at this time. They are employed more than 30 hours a week.

The able-bodied adults who are available for employment represent 1.1 million people, 500,000 of whom are women, and 600,000 of whom are men.

Now, if I may, with your permission, Mr. Chairman, I will return to those people and follow them through at the last stage.

Then we have the female heads of families with children under 6, who are exempt by the statute, and who represent 900,000 people, as shown on the tabulation on the right.

We have wives of family heads, another 3.1 million, and they are exempt by virtue of the fact that their husband is working.

We have the old, sick, and disabled, and they represent 1,200,000 people, and then, finally, the adult members who are students or who are needed in the home to care for a family member full time, and that represents 900,000 people.

Returning to the 1.1 million people who will be required to register, and I might say parenthetically we anticipate that there will be a considerable number of people who will volunteer and register. That will include people in the working poor who may register as shown in the little part of the chart at the top, for the upgrading training which will be provided, and for which we are requesting 75,000 additional training opportunities in the first year of the act. And there will be other people in this group, and those programs come into play, whom we would initiate at our own effort, programs to call them in for training.

But dealing with the 1.1 million who must register, the first step is, after they have applied for their benefit, they come to the local employment office and register with the Employment Service, and we, in accordance with priorities, will develop an employability plan for these people, which will include counseling, diagnosis, and preparation of steps leading to their employment, which might involve in some cases a direct referral to a job, for those people who are ready and have some skill, training, or education, or it might involve classroom training, on-the-job training, work experience, the upgrading or basic education that they may require, or related supportive services, to make them job-ready.

When they complete the referral to training, they will then be referred to jobs, and I might say, as the Secretary mentioned in his testimony, with the increased use of computers which should be in place in, oh, about 76 cities by the end of 1970, we would be able to use the computer to give us also a better fix both on the training and the jobs.

Those people who refuse to accept a job or training, as shown in the bottom line, here, would come from the Employment Service, and if they refuse, the Secretary of Labor would refer back to HEW that these people had refused without good cause, and they would be taken off of the family assistance payment, as shown here.

So that sort of gives you the flow.

Mr. SCHNEEBELI. Up to that point, sir, what do you mean by "supportive services," in that last column?

Mr. ROSOW. That might include things like dental care, if the person is unable to work because of a problem there, some kind of remediation or medical rehabilitation.

Mr. SCHNEEBELI. Rehabilitation?

Mr. ROSOW. Yes, sir.

Mr. GIBBONS. Mr. Schneebeli, will you yield at this point? There is something I want to figure out.

Mr. SCHNEEBELI. Yes.

Mr. GIBBONS. If you just go back to that last step, you have them trained, and you refer them to the job, and they either don't take the job, or they go there and are not employed, or get fired, or let us just say they don't take the job. What happens to their kids?

Mr. ROSOW. In that instance—

Mr. GIBBONS. They get cut off?

Mr. ROSOW. No. What happens in that case, to be specific, if we have a family of four, with a payment of \$1,600, just the Federal payment, setting aside the State supplement and food stamps, in that instance, if that person fails to cooperate. There is a reduction of \$300 a year in the family payment, and HEW arranges for the payment of those funds through a third party to that family.

Mr. SCHNEEBELI. What percentage of the people that you train do you figure will not accept employment?

Mr. ROSOW. One test was mentioned I believe briefly yesterday, and indirectly in the Secretary's testimony this morning, Mr. Congressman.

There were less than 200 people in the present work incentive program who have refused to accept training or work under its provisions.

Mr. SCHNEEBELI. 200 out of how many?

Mr. ROSOW. 200 out of 92,000 who have registered. But we must note here that a number of these registrants were more in the volunteer category, in the sense that they took some initiative to come into the program.

We may have a higher mix of less volunteers in the other program, but a very low ratio, and no women were included in those 200 who were held ineligible.

Under the unemployment insurance program, if I may use that analogy, we have some 61 million claimants who come through the office in the course of a year, people who will come in every week to report back for their payment, and only 56,000 in the last fiscal year

were declared ineligible for unwillingness to accept training, or specifically, referral to a suitable job.

Mr. SCHNEEBELI. Some of these people, then, who refuse a job, very well could come under unemployment, could they not?

Mr. Rosow. If they were in covered employment for sufficient quarters, yes, but in this case 50 percent of their unemployment insurance would be deducted from their family assistance payment.

Mr. SCHNEEBELI. I see. So they could get both.

Mr. Rosow. They could get a piece of both, depending on the level of the benefit, the level of UI benefit.

Mrs. GRIFFITHS. If you added that wives of the family heads and female family heads with children under six together, that is the largest number, 4 million women.

If they volunteered, would you permit them?

Mr. Rosow. Yes.

Mrs. GRIFFITHS. And will you take care of their children?

Mr. Rosow. I must make a distinction here, Congresswoman Griffiths.

With regard to the female family heads with children under six, we anticipate in that 900,000 a fairly significant number who will volunteer, and we would take care of their children.

Mrs. GRIFFITHS. You will?

Mr. Rosow. Yes.

With regard to the family heads and the working poor, which was a question that was addressed to Secretary Veneman this morning, and which represents 1.8 million, our position on this is very clear.

We believe that since the father is at work full time, the mother should stay at home and take care of those children.

At the same point, if our program is as successful as we are making every effort to assure that it will be, namely, in developing the child care program and making it work, we will have some development over the years to see whether it would be desirable to reach into those other families, but as of the moment, the program definitely does not call for child care for the working poor, because the man was present and employed.

Mrs. GRIFFITHS. Then you will have the working poor where both the husband and wife work, and you can explain to that wife that she is working so she can help the fortunate other woman to stay at home. You are going to have to explain that.

Mr. Rosow. There may be instances in which they are both working, but our data shows that characteristically among the working poor, where the wife does work, it is part time, and intermittent. Because they are in areas where there is more unemployment and where wage rates are lower, and the like, we don't have a high proportion situation where both parents are absent in the case of the working poor.

Mr. SCHNEEBELI. Could you tell me, in this whole program have we had any precedents where any other country may have tried this approach? Is this unique in the approach, or have other countries tried this, and what have they found as a result of it?

Mr. Rosow. Mr. Patricelli will respond to that.

Mr. PATRICELLI. I cannot, unfortunately, comment on other countries, Congressman, but right here in the United States we have a number of Federal assistance programs which cover the working poor.

The principle is rather well established. The food stamp program, for

example, does not make any distinction as between male or female heads of families. It does cover the working poor. Medicaid covers the children of the working poor, and of course rent supplements or public housing, all those other kinds of assistance payments-in-kind cover this group.

Mr. SCHNEEBELI. But this is rather specific. It is tied down to a specific flow chart, here. All of these other things are rather disconnected, and even I think the bill that we passed in 1966 did not have such a specific program, which looks pretty good to me, but I think what we adopted in 1966 was just sort of a general idea, and I don't know that we got down to specifics such as you have here.

Am I correct in this, and have any of the other countries, again, tried anything of this nature?

Mr. Rosow. If I follow your question, it is with relation to the work requirement features of this.

Mr. SCHNEEBELI. Yes.

Mr. Rosow. Well, I think the big distinction, if we refer to Western Europe as a point of analogy, or Canada, is that they have a family allowance system which is different from what we have in this country under the welfare program.

Mr. SCHNEEBELI. It is not work related?

Mr. Rosow. It is not. It is children related, without including the adults.

Mr. SCHNEEBELI. Is this the first work-related program that any country has tried to adopt?

Mr. Rosow. It is difficult to make a categorical statement. I think generally speaking the WIN program which this committee put into effect in 1967 was original in that sense in tying in a responsibility with a right, and many of the family allowance programs in most of the European countries give it as a right, and it goes to people of means as well as to people in poverty and is not distinctive there either.

Mr. SCHNEEBELI. Certainly since it is new, it is going to be flexible.

Mr. VENEMAN. Perhaps Mr. Myers can shed some light on what other countries have done.

Mr. SCHNEEBELI. Yes. Go ahead.

Mr. MYERS. Mr. Schneebeli, from my study of social security systems in foreign countries, which I have made over a good many years, I can say that this is a unique type of program. There is nothing in any other country anywhere in the world that is at all like it.

The only thing that is close are some family allowance systems that are fairly widespread, but they are greatly different.

Mr. SCHNEEBELI. In this approach, as I say, since it is new and unique, it certainly would allow for flexibility because it is an entirely new social concept.

Mr. MYERS. Yes, I would think so.

Mr. SCHNEEBELI. I believe in the bill that we had in 1966 when we passed that family dependency program there was not anything as specific as this. It was just a general idea that there should be some work.

Mr. VENEMAN. The WIN program. That applied to the existing caseload. We didn't change anything with regard to that.

Mr. SCHNEEBELI. Yes.

Mr. BURKE (presiding). Mr. Myers, would you come back and answer a few questions? Have you made any cost estimates of this program?

Mr. MYERS. Yes, Congressman Burke. As the Secretary mentioned in his opening testimony, I was asked to make an independent check of the original cost estimates that were prepared by a work group consisting of people in a number of different departments, and I approached this cost estimate in an entirely different manner than they did, and I believe it can well be said that these two cost estimates, considering the newness and the uniqueness of the program, came out reasonably closely.

Mr. BURKE. What is your estimate?

Mr. MYERS. The figure that I came out with was a net annual cost for the first full year of operation, which would be calendar year 1971 if the bill were enacted in this current fiscal year.

For that period, I estimated that the net additional Federal cost over what would otherwise have been paid to the States for the aid to families with dependent children program would be \$3.5 billion.

Mr. BURKE. In 1971?

Mr. MYERS. For calendar year 1971.

Mr. BURKE. I don't want to hold you up. If you could submit a memorandum to be inserted at this point in the record projecting it to 1972, the committee would appreciate it.

Mr. MYERS. Yes, Mr. Burke. I have a memorandum of that type and I will submit it for the record at this point.

(The memorandum referred to follows:)

OCTOBER 10, 1969.

Memorandum.

From : Robert J. Myers, Chief Actuary, Social Security Administration.

Subject : Cost estimate for family assistance plan.

This memorandum will present my cost estimate for the proposed Family Assistance Plan (FAP) as proposed by President Nixon and as contained in H.R. 14173, the Family Assistance Act of 1969. First, there will be summarized the results of the cost estimate, following which there will be given a brief description of the plan, more details on the cost estimate, and a brief description of the cost-estimating methodology.

SUMMARY OF COST ESTIMATE

If the proposal is enacted in the current fiscal year, it would go into effect on January 1, 1971. Accordingly, these cost estimates are for calendar year 1971.

The estimated net benefit cost of FAP, which is the gross FAP cost after deducting what would have been paid under the Aid to Families with Dependent Children program (AFDC) if it had continued as in present law, is \$3.5 billion. This figure may be compared with the \$2.5 billion that was given in the document, "Welfare Reform Fact Sheet, Background Material," dated August 8. Apparently, the latter figure was for fiscal year 1970 (although certain worksheets indicate that it really applied to calendar year 1968).

The cost of FAP would gradually rise over time, since the child population who might receive benefits is increasing rapidly, and this probably more than offsets the fact that wages and other income that partially offset the FAP benefits are also increasing over time. Also, the proposal as contained in the Bill has a somewhat higher cost than as it was described originally, because certain unearned income is now offset by only 50% against the FAP benefits, instead of 100%. These two factors (especially the latter) account for about half the difference between my cost estimate and the other one, which was prepared for an earlier effective date.

Accordingly, in my opinion, considering the unavoidable lack of precision in cost estimates for a new type of program, the remaining variation between my cost estimate and the other one is within a reasonable margin and should not

be of concern. Of course, I believe that my estimate, which is somewhat higher, is a more likely portrayal of what will actually occur if the Bill is enacted.

BRIEF DESCRIPTION OF FAMILY ASSISTANCE PLAN

The full FAP benefits are \$500 per year for each of the first two members of an eligible family, plus \$300 for each additional member. An eligible family consists of a family with at least one unmarried child under age 18, or under age 21 if in school. The FAP benefits are reduced on a \$1-for-\$1 basis for veterans pensions and certain farm subsidies. Reduction is made on a \$1-for-\$2 basis for earned income of the family in excess of \$720 per year and for unearned income. No reduction at all is made for certain other types of income—namely, the first \$720 of annual earnings and any public assistance or welfare payments (since presumably the latter would be adjusted to reflect the existence of FAP).

RESULTS OF COST ESTIMATE

In order to obtain the net additional cost of FAP, it was first necessary to make a cost estimate for the present AFDC program for calendar year 1971, allowing for its likely growth because of more complete filing by persons now eligible but not receiving payments. In this estimate and in the estimates for FAP, it has been assumed that the President's Social Security proposals are enacted. It is estimated that the total payments to recipients under the AFDC program for calendar year 1971 will amount to \$5.15 billion, of which \$2.76 billion is the Federal share.

The gross FAP benefits for calendar year 1971 are estimated at \$6.25 billion, consisting of \$.33 billion to Social Security and Railroad Retirement beneficiaries, \$3.52 billion to recipients of AFDC and other Public Assistance programs who are not Social Security or Railroad Retirement beneficiaries, and \$2.40 billion to all other families (principally the so-called working-poor families). Thus, the net additional benefit cost of FAP is estimated at \$3.49 billion for calendar year 1971 (\$6.25 billion minus \$2.76 billion). It should be noted that I have not estimated the administrative-expense cost of FAP.

COST-ESTIMATING METHODOLOGY

The general basis of my cost estimate is to deal with the entire population involved, breaking it down into specific categories and projecting the results ahead to calendar year 1971.

My methodology is different from that used in preparing the other cost estimate, mentioned previously. For that cost estimate, the procedure was adopted of analyzing what results FAP would have had if it had applied individually to each case in a small sample derived by the interview process several years ago. The difficulties involved in this process—and, quite admittedly, there are also difficulties involved in my procedure, as will be discussed subsequently—are several.

First, there is the question of the representativeness of the survey and the accuracy of the information reported therein. Second, no account can be taken of the dynamic nature of the situation that, when a significant new benefit structure is created, the overall social and economic structure will probably undergo great changes. Third, the use of Electronic Data Processing methods—despite their great attractiveness and utility in certain operations such as mass record-keeping and tabulation of crude statistics—can quite possibly introduce errors and bias that will be undetected when only the overall results of the procedures are visible—because of possible programming errors and gaps of misunderstanding between the estimators and the EDP technicians.

Even though completely precise arithmetical calculations can be made for each case separately and a completely accurate summation of these results obtained, there is no assurance that such summation will be an accurate portrayal of costs. This is so because such individual-case calculations might not be accurate portrayals of the situation which would result after the program became effective. Thus, each of the basic bits of data are in themselves imprecise, since the static conditions to which they apply would be so vastly changed by what would actually happen when the program goes into operation.

Now, turning back to a general discussion of my procedures, the first step was to estimate the residual FAP benefits payable to Social Security and Railroad Retirement beneficiaries. This was done by projecting ahead the actual current beneficiary data on numbers of persons and families, by size, and on the benefit

distributions. From these data it was possible to estimate the residual FAP benefits, taking into account also the probable work income of the families.

The next step was to estimate the number of AFDC and other Public Assistance recipients who would be eligible under these programs if present law continued, but who would instead receive FAP benefits, and then to deduct those who would also be receiving Social Security and Railroad Retirement benefits. The distribution of these families by size was estimated from Public Assistance, Social Security, and Census data. Then, the total FAP benefits were derived.

Finally, the FAP benefits for all other persons (primarily the so-called working-poor families) were obtained by using Social Security earnings data projected ahead to 1971 and making suitable allowances for the effects of other types of earnings, unearned income, earnings of more than one person in the family, etc. Quite admittedly, this portion of the estimate, which is a very significant one, involves the greatest difficulties in estimating because there are so many intangibles involved. For example, it is really impossible to estimate accurately in advance what effects the FAP benefits structure will have on earnings and job incentives and on family composition. Thus for instance, it is impossible to predict how intensively a family with earnings just above \$720 per year will attempt to raise their earned income (or report such income) when half or more is taken away through deduction from FAP benefits and other items such as taxes.

All in all, I believe that the procedure that I followed represents a reasonable intermediate approach, containing elements of both understatement and overstatement that, hopefully, will be closely counterbalancing. Nonetheless, in a new program such as this, with its many completely new features, it must be recognized that any cost estimates made cannot be too precise or accurate and necessarily contain a possible margin of variation which may be as much as 20% or 25%. It should be emphasized that underlying my estimate is the basic assumption that the program will be strictly and tightly administered according to the provisions of the law and that the necessary permitted procedures developed by the Secretary will be relatively non-expansive insofar as costs are concerned.

ROBERT J. MYERS.

NOVEMBER 5, 1969.

Memorandum.

From: Robert J. Myers, Chief Actuary, Social Security Administration.

Subject: Cost estimate for family assistance plan.

This memorandum will supplement my memorandum of October 10 on the above subject, which was submitted for the record at the request of Congressman Burke on October 16 at the Public Hearings before the Committee on Ways and Means. That memorandum gave a cost estimate for the Family Assistance Plan for calendar year 1971. Mr. Burke requested an extension of this estimate, so as to project it to calendar year 1972.

As compared with the estimate for calendar year 1971, an estimate for calendar year 1972 involves several counteracting factors. The cost would tend to increase over time as a result of the increasing number of children in the country and, to some extent, with increased public awareness of the benefits available and how particular financial situations could be adapted to coordinate with them. On the other hand, assuming that the benefit provisions remain unchanged, the cost would tend to decrease over time as the general wage level rises (as can be anticipated, based on the long-term trends in this country and the current economic situation). With higher wage levels prevailing, quite naturally, there will be greater offsets against the benefit payments under the plan with regard to those families where some employment is present (often resulting in partial reduction of the benefits). In other words, as the wage income of the families involved rises because of higher earnings rates, the reduction in the benefits in those cases where only partial benefits are payable will be larger.

In balance, considering all the foregoing factors, I believe that the cost which I have estimated for calendar year 1971 will also be applicable for calendar year 1972.

ROBERT J. MYERS.

Mr. SCHNEEBELI. Mr. Myers, isn't the total program supposed to cost about \$4.4 billion, and if you subtract that \$3.9 billion, certainly we are not spending much money. I don't get that.

Mr. MYERS. My statement, Mr. Schneebeli, was only for that part of the program involving the family assistance payments.

Mr. SCHNEEBELI. Which is new.

Mr. MYERS. And as to the other parts, the payments for the adult categories, and so forth, I did not make an estimate for them. My estimate of \$3.5 billion as the net additional cost compares with an updated estimate by the other group that made an estimate of about \$3 billion, but theirs originally was for a different period of time and a somewhat different plan.

Mr. BURKE. In your memo that you submit could you include the other figures on the other estimated costs in addition to the family allowance?

Mr. MYERS. This particular memorandum that I have prepared did not include the other adult categories but did compare my estimate with the other estimate. I suppose if you wanted me to make an estimate of some of the other elements, I could do so.

Mr. BURKE. You may submit it for the record. Take your time during the next week and then submit it so that we can get a projected figure not only for 1971 but also 1972, if possible.

Mr. MYERS. I will do that, but could I ask that I not be requested to make an estimate for the training and day-care and administration costs, because I really have no knowledge at all in those fields.

Mr. BURKE. You give us the figures that you can include and the estimates that you can include on as much of this bill as possible.

Mr. MYERS. I will be glad to do it.

(The material requested follows:)

OCTOBER 31, 1969.

Memorandum.

From: Robert J. Myers, Chief Actuary, Social Security Administration.

Subject: Cost estimate for public-assistance adult categories.

This memorandum presents my cost estimate for the changes proposed for the three adult public assistance categories by H.R. 14173.

In brief, these changes may be summarized as follows:

(1) The Federal matching formula would be changed to 100% of the first \$50 of the state's average monthly payment, plus 50% of the next \$15, plus 25% of the remainder.

(2) A Federal standard would be provided such that the state plan would have to have a minimum individual payment level of \$90 per month for the public assistance payment, after taking into account any other income (including Social Security benefits).

(3) Other Federal standards would be provided so that states could not require liens on homes, relative responsibility conditions (other than with respect to a spouse), and consideration of small amounts of assets.

The cost of this proposal has previously been estimated at \$400 million per year (exclusive of an additional cost for a provision giving certain fiscal relief to some states—to be discussed later).

Now, turning back to the question of the cost estimate for the proposed changes for the three adult categories, I must first emphasize that any cost estimates in connection with programs that depend to a considerable extent on state action are difficult, if not impossible, to make accurately. I have verified that the \$400 million estimate is a reasonably good one, if there is considered only the change in the matching formula and the effect of the \$90 minimum-income requirement (which, in fact, has an effect on only about 15 states—and for many of them, only a very small effect).

What has not been taken into account in the \$400 million cost estimate, however, is the required broadening of a number of state programs, so that many new persons will be included. For example, in states that have strict rules with regard to family responsibility, liens on homes, and permissible other assets, the new requirements will mean that many persons will come on the rolls for relatively small grants. For instance, now, a person with a home who is potentially eligible for a small grant of \$20 or \$30 a month ("needed" to supplement Social Security benefits) will get along without this payment—or will obtain the necessary money

from a child who will inherit the home—since there will be hesitation to accept public assistance when it will only mean that there will be a corresponding lien on the home that will eventually be taken.

Under the proposal, however, there will be no such hesitation to accept small "partial" public assistance payments. Not only will such additional payments result in increased cost to the Federal Government in themselves, but also they will tend to reduce the state-wide average payment and thus increase the Federal matching *proportion*, especially since the Federal Government pays 100% of the first \$50 of average monthly payment.

A numerical example may illustrate this situation better. No account is taken here of the fiscal-relief provision of requiring the state to spend at least 50% of base expenditures (which, after a 5-year period, will not be effective anyhow). Suppose that a high-income state that is operating under the combined approach of Title XVI now has 150,000 recipients at an average monthly payment of \$100 (not too different from the present situation in New York). At present, the Federal share (at 50%) is \$90 million per year. With the same number of recipients, the new formula would yield a Federal share of \$119 million per year.

Now, suppose that, at present, this state has very strict requirements about family responsibility, liens on the home, and other assets. These must be greatly liberalized under the proposal. As a result, many new recipients will be added with relatively small grants, on the average. Let us suppose that 50,000 recipients are added at an average of \$20 per month. Then, there would be 200,000 recipients at an average monthly payment of \$80. Accordingly, the new formula would result in a Federal share of \$147 million per year.

In the foregoing example, the state would have had a cost of \$90 million per year under the present basis, \$61 million per year under the new formula if the number of recipients had remained unchanged, but only \$45 million per year if the number of recipients increases as a result of the liberalizations in the standards required by the proposal. In fact, it is quite possible that there could be such an expansion of the assistance roll that there would be no state cost at all—and yet a greatly increased Federal cost. For example, if sufficient recipients were added so that the average payment fell to (or below) \$50, then the Federal government would pay the entire resulting increased total cost, and the state would pay nothing (instead of the reduced amount from the present shown by the foregoing example).

It is not at all unrealistic to assume that, with the liberalized standards required by the proposal, there will be many new recipients with relatively low payments, so that the average payment will drop significantly and the Federal matching proportion will increase significantly. This is indicated by the situation now prevailing in Rhode Island. This state has relatively liberal eligibility conditions. As a result, it has many individuals on the roll with small "partial" payments and, therefore, relatively low average payments, despite a high cost standard for basic needs (for OAA \$151 per month, as compared with \$115 for New York). In fact, looking at the Rhode Island OAA program alone (i.e., disregarding the fact that it is a Title XVI state), the average monthly payment is only about \$44, so that the entire cost would, under the new matching formula taken alone, be paid by the Federal Government. This average OAA payment in Rhode Island is undoubtedly very low because virtually everybody in the state works or receives Social Security (or some other governmental pension). As a result, any OAA grant is of a residual nature, and the individuals involved have no hesitancy in claiming such payments, because of the liberal requirements as to liens on homes, relative responsibility, and other assets.

Considering the foregoing analysis, it is my opinion that the cost estimate for the new matching basis for the three adult categories plus the effects of the required liberalized eligibility standards will result in an additional cost that will be well in excess of \$400 million per year. It is really impossible to tell, with any degree of precision, just how the states will implement this proposal if it is enacted, but I believe that there will be additional costs of at least \$200 million (and possibly more) over the original estimate.

The foregoing discussion did not include the effect of a separate provision giving fiscal relief to state and local governments with respect to the new welfare plan (the Family Assistance Plan plus the required supplemental plans, and and the new provisions for adult recipients, combined). Such fiscal relief is that no state is required to spend more than 90% of the expenditures that it had in the base year, although it must spend at least 50% thereof.

I have been informed that the net estimate of such fiscal-relief provision is \$100 million per year and that this amount was included in the "other" category in the cost estimates previously released. I have further been informed that this net figure of \$100 million consists of roughly \$150 million of additional Federal payments due to the 90% limit, minus about \$50 million of payments from states to the Federal Government under the 50% provision. Any cost estimate of this fiscal-relief provision is very difficult to make, because it depends so much on state action (which is not readily predictable), but I doubt very seriously whether any states would permit the situation to occur where they would pay, either directly or indirectly, any money to the Federal Government that they could, without any cost to themselves, use for additional assistance grants to their own residents.

ROBERT J. MYERS.

Mr. SCHNEEBELI. I yield to Congressman Bush on a question.

Mr. BURKE. Mr. Bush.

Mr. BUSH. Mr. Secretary, you have optimistic figures it seems to me on, what was that figure, 200 out of quite a few thousand who were not willing to accept training and this kind of thing.

Mr. VENEMAN. Mr. Weber can elaborate.

Mr. BUSH. Let me finish the question so that you can include it in your answer.

I noticed in the testimony that in New York State I think 7 percent were referred, Utah, 97 percent. There is a big discrepancy. This seems to me to be an application problem of the system.

Some welfare workers might do as referred to in our executive meeting where some welfare workers were reluctant to refer them because the workers might refer themselves out of a job.

I wonder, when you have this mandatory registration, whether the figures might not be a little more pessimistic. Let me be clear that I support this concept 100 percent, but a figure like 296 certainly would change adversely if you had everybody involved.

Mr. ROSOW. That is right, Congressman Bush. I alluded to that a moment ago when I said that the low ratio was highly attributable to the higher proportion of volunteers.

Mr. WEBER. But looking to get a fix on the probabilities in the question that you raised, Congressman, I think Mr. Rosow also referred to the experience with the UI claimant, and there the disqualification was something like one-tenth of one percent, also very small, and certainly there are differences, but it indicates what the level is likely to be.

I might say that in our current administration of the WIN program, the problem is the other way. There have been more volunteers in many instances than training slots available or funded.

Mr. BUSH. I think it would be appropriate to say anything can be done. Anything is possible.

Mr. WEBER. It's the year of the underdog.

Mr. SCHNEEBELI. Mr. Chairman, I think I still have the floor.

Mr. ROSOW, have you finished your chart?

Mr. ROSOW. Yes, I have.

Mr. SCHNEEBELI. Secretary Veneman, is this a new social concept, to add to the income of people who are already working who have a certain amount of income? Is this a rather repressive attitude toward incentive? Are we liable to get people in the lower income bracket who say, "Why should I work any harder because I am guaranteed a higher income by the Government?"

Are we liable to polarize people into the lower brackets by eliminating incentives?

Mr. VENEMAN. I think actually, No. 1, it is not an entirely new concept to add some kind of supplement to the low income groups. I think Mr. Patricelli just made that point when he pointed out that no distinction is made in the food stamp program, in title 19 of the medicaid program, and various others.

But actually the concept of extending supplemental payments to those persons who earn less than can be earned under the welfare standard would have just the opposite effect of giving them an incentive to work instead of an incentive to go out of the labor market, and I think that is the basic principle of the program.

Mr. SCHNEEBELI. While these people are at low income levels and still receiving Federal assistance, do we have some upgrading programs going on simultaneously?

Mr. ROSOW. Yes, as I mentioned, we are asking the Congress for 75,000 upgrading opportunities in the first year of the program to work with the people who are in the working poor category.

Mr. SCHNEEBELI. So you have several types of people: Those you are training, people without jobs and people with jobs, that you are trying to upgrade?

Mr. ROSOW. Exactly right.

Mr. VENEMAN. Two groups.

Mr. SCHNEEBELI. Administered by the same group of people, the same office.

Mr. ROSOW. It might be under a different group, but administered by the manpower program. It might be a subprogram of the manpower program.

Mr. SCHNEEBELI. Who actually implements these programs? Are they the area community colleges and groups of this type who teach trades?

Mr. WEBER. It would depend on the form, Congressman, that the upgrading took. In some cases it would be on-the-job training directly related to the job that the person had. In some cases it might be institutional training, as in a community college or vocational school on an evening basis.

The idea of developing an individual employability plan would be to adapt the training to the needs of the recipient and his potentials.

Mr. SCHNEEBELI. In my district I have a branch of the OIC, the Reverend Sullivan's training program, and I would say about half the people in this program are in there to be upgraded. It is a matter of their own choice and up to this point I think they have done a good job.

To what degree would your agency supply the ambition incentive which apparently OIC has been able to do? To what degree do you supply that same incentive because I think you are more detached from the community that OIC serves than OIC is. They make themselves a part of the community effort.

Mr. WEBER. I guess the primary incentive is the fact that as the person gets more income, he keeps more income. Beyond that, of course, OIC which is one of the programs that we fund has managed to obtain great acceptance particularly in the minority community.

They have developed techniques which in many instances develop positive attitudes toward work and economic mobility and in the conduct of these programs as the Secretary implied, which would

be developed at the local level under the terms of our proposed manpower training act, you would be able to use facilities such as OIC and other manpower components that are already in place.

Mr. SCHNEEBELI. That is a question I have. How would you work along in a complementary fashion with OIC? I presume you will be teaching a lot of trades that they are not capable of handling in this upgrading. Would you refer some of your people to OIC and then have your own areas of instruction beyond this?

Mr. WEBER. Well, this would be at the discretion of what we call the prime sponsor of the manpower programs. Currently the prime sponsor of the training components of the WIN program which is close to what we are talking about, is the State employment service, and they have contracted out particular components of the WIN program, counseling and what have you, to various private groups.

Mr. SCHNEEBELI. Is OIC rather limited in the territory they cover? Are they mostly eastern?

Mr. WEBER. No, they are in 40 different cities, at least 40.

Mr. SCHNEEBELI. Currently, generally how many people do they have in their programs? Do you know what is their annual training?

Mr. WEBER. I could provide that for the record, sir.

Mr. SCHNEEBELI. Thank you.

(The information referred to follows:)

In August of 1969, 6,987 people were enrolled in O.I.C. programs. We do not have exact information on the characteristics of those enrolled in August. However, we estimate that from 15 to 20 percent of those currently enrolling are public assistance recipients.

Mr. SCHNEEBELI. Generally, what percentage of the people that we are concerned about in this area are they currently training, as much as 5 percent?

Mr. WEBER. Through all our manpower programs?

Mr. SCHNEEBELI. No; OIC in the segment of people.

Mr. WEBER. I will have to get that for the record, but I might say in passing that they do attract as their enrollees a large number of welfare mothers. Indeed, the proportion of female enrollment is considerable in most of their programs.

Mr. SCHNEEBELI. That is right, and what I have noticed is that they take the average clerk and file girl and try to train her to be a typist or secretary or something in a like category.

Mr. WEBER. Yes, sir.

Mr. SCHNEEBELI. Generally what is your attitude toward the product they turn out or is that a rather difficult question?

I refer to OIC.

Mr. WEBER. Well, I think the problem, the question is, what is the employer's attitude.

Mr. SCHNEEBELI. That is right.

Mr. WEBER. Because this is often reflected in job development. OIC has had some problems of job development, that is, insuring employment once the person gets out of the training program, and we have tried to work with that very closely through our experimental demonstration project particularly to develop links with the JOBS program which assures a job.

Mr. SCHNEEBELI. In Harrisburg, which is part of my congressional district, OIC has a program that is supported quite strongly by large

industrial concerns, and they seem to be turning out a pretty good product. I don't know whether this is true throughout the country, and I was wondering to what degree they are integrated into your program.

Mr. WEBER. The answer is that it varies. Philadelphia is, you might say, the mother church of OIC. That is where Reverend Sullivan started it, and I assume it is very strong in Pennsylvania.

Others have had a little more trouble because an important ingredient is this element of business acceptance.

Mr. SCHNEEBELL. Thank you, Mr. Chairman.

Mr. BURKE. Mr. Conable.

Mr. CONABLE. Thank you, Mr. Chairman.

I am sorry the Secretary of Labor isn't still here. I would like to compliment him on his statement. I thought it was an excellent one.

I would like to quarrel a little with him on his statement of what he thinks is the most important part of the bill.

I think day care centers are important. I think the most important aspect of this bill is that it does something for the working poor. I believe this is very seriously needed if we are going to have support of the welfare system by the productive citizens of this country.

As I take readings in my own district, I think there is a great deal of concern about welfare. It is one of the most visible parts of our structure of government, and there is a great deal of criticism of it.

The letter that I get that I have the most difficulty in answering is from somebody who says, "I work all year long for \$2,400 a year," or something like that, "and the fellow across the street doesn't work at all, and he gets more than I do. So why should I work?" There just isn't any answer to that.

The only modest concern I have about this type of work incentive is that I wonder if you have considered what possible effect it has on employers. Are they less likely to upgrade their wage schedules because they know that work supplements, income supplements are available under the system that you are proposing?

Mr. VENEMAN. My reaction, Mr. Conable, would be that it would not have a tendency to do that, but I think the Labor Department can more precisely answer that.

Mr. CONABLE. There has been some study of that, has there?

Mr. VENEMAN. We are doing some studies.

Mr. CONABLE. I know most employers feel some responsibility for the people who work for them and feel that they have to pay a living wage if they are going to expect to get the labor in the first place.

Mr. ROSOW. In the Secretary's prepared testimony this morning he referred to this question of cheap labor and indicated that we were definitely opposed to doing anything that would support or add to this problem.

Mr. CONABLE. Well, I understand what he said about the question of what is a suitable job, but of course let's take a man who is already working and working at a comparatively low level and is not looking for a job. A new job is not involved, but a submarginal old job. There may not be any really good answer to this. This is the only concern I can see. I really think that doing something for the working poor is terribly important if you are going to have a system that will have the support of the people as a whole.

So I don't mean to quibble about it, but I just ask if you have considered this question?

Mr. ROSOW. We have considered it, and our economists tell us that it is possible it could have a marginal effect on the so-called reservation wage. When a person working at low wages has some other form of supplementation of income for his family, it tends to increase his overall independence rather than increase his dependence on the employer and should make him more responsive to wanting to upgrade or seek other work rather than depend on lower wages.

Mr. WEBER. I was going to say on our present on-the-job training program we do have support from Federal funds for training of persons who are on the job and there has been no evidence to indicate that this has had any diminishing effect on the wage levels paid to those who participate in OJT.

Mr. CONABLE. That is a temporary thing, and you are going to build in a permanent supplement if the wages simply are not adequate.

Mr. ROSOW. However, if I may elaborate, this might help. Turning to the economic incentive aspect of the working poor as distinguished from persons who are on family assistance who may not be working at all or who work their way out of assistance from a zero income position, the person who is working at low wages is reduced in his family payment at a 50-percent marginal tax rate so that there is a constant incentive for that person to increase his earnings.

The question was raised earlier by one member of the committee whether people might not be motivated for not working since they are able to opt for support, and an economic analysis shows clearly that there would be a loss of income for those families if they opted out of work.

Mr. CONABLE. A while ago I got involved up at the Kennedy Institute of Politics at Harvard talking about welfare with the former Secretary, and we had a very lively evening, and people there talked mostly about the guaranteed annual income. That has a great deal of academic interest, and every one of them was talking about something different.

We hear a good deal about guaranteed annual income in connection with this proposal, and I think it might be helpful to have some review of the differences between your proposal and the guaranteed annual income. I would like to know, also, if we have anywhere in the record the figures on what a guaranteed annual income would cost.

You hear figures all the way from \$12 billion to over \$20 billion for a guaranteed annual income of \$3,000, but I assume that there are some reliable statistics available.

I wonder what we are talking about. The cost of this program I understand is estimated by Mr. Myers anyway to be \$3½ billion, very substantially below the figures that are generally discussed for a guaranteed annual income.

But I would like to try to get some perspective on the differentiation here and on the differences in cost. I think it would be helpful for us to have that.

Mr. VENEMAN. Actually, Mr. Conable, I think that the key distinctions are the fact that, No. 1, this does not cover the universe as a guaranteed annual income connotes. The connotation of that is that you are going to cover everybody that is below a certain level.

So we actually keep the family-child requirement.

Secondly, we have the work requirement in it.

Thirdly, the Federal participation in the family assistance plan is up to a level of \$1,600 for a family of four.

Now, we are not suggesting, and I certainly wouldn't want anybody on the committee to get the impression that we are suggesting, that that was adequacy. We are suggesting that this is what we will put in as a national floor.

We are also suggesting that we will pay the first \$50 in the adult category with 50 percent of the next \$15 and 25 percent of the balance up to \$90.

We know what our fixed Federal investment is going to be in that program. This combination is somewhat over \$4 billion, between \$3 and \$3½ billion for the family assistance portion.

You are absolutely correct. If you were going to have a guaranteed annual income to bring everybody in the United States up to what is considered the poverty level, it would cost somewhere in the range you have discussed. You hear figures all the way from \$12 to \$20 billion. But this is not what we are suggesting to do. We are not saying that people, a family of four, can live on \$1,600. We are saying that those States that now supplement shall continue to supplement.

In those States where they are receiving less than that, the recipients will be better off. We are saying that we will guarantee this base, and we will let you retain earnings over and above this base; \$720 of the earnings will be disregarded. You can keep 50 percent of everything above that to the breakout point.

I think another significant thing is that on top of this \$1,600 base, coupled with the food stamp benefits that can be derived for a family of four, adds up to around \$2,320, so that actually we are saying that we in the Federal Government are willing to cover the first \$2,320 of the family's need if they buy into the food stamp program.

We are not trying to cover the universe and it is not a guaranteed annual income in the truest sense of the world.

MR. CONABLE. Let me move on to another question which is a political question really.

The primary benefit of this bill is going to go, of course, to a small group of Southern States, those who have very low welfare standards now. The additional Federal money that goes in is going to be primarily concentrated there.

My own State of New York has had a very advanced welfare system. It puts a lot of money into welfare and there is a very strong feeling abroad in my State that the pressure of welfare has very significantly reduced the ability of local and State government to solve problems on that level.

This bill will bring a comparatively modest amount of money into New York State. Coupled with revenue sharing perhaps it is over \$100 million, but, by itself (probably a more realistic way of looking at it), it is going to bring into the State less than \$50 million in terms of the total welfare burden in New York State.

This is a very modest contribution, indeed.

Now, there is a feeling in New York State in governmental circles that we have to survive in the short-term if we are going to be able to participate in the long-term benefits that are implicit in this improve-

ment of the system, and I think everyone agrees that this will be an improvement of the system.

I would like to ask you how this bill would have to be changed significantly to bring into some of the large urban Northern States enough money for the type of symptomatic relief that would make the bill more politically acceptable to these Northern States.

Would it be through increasing the share above \$1,600 that the Federal Government contributed to the total welfare burden and, if so, how? I am not asking you to design a bill right here before me, but generally how would one approach an effort to make this bill more politically acceptable in the short term to those States already carrying a welfare burden which puts them far above the \$1,600 floor?

Mr. VENEMAN. I think there are two things we have to take into consideration here, Mr. Conable; No. one is that percentagewise the Southern States will benefit more greatly because they have lower payments.

Mr. CONABLE. And please understand I know what you have built into the bill to be certain that they still make some effort.

Mr. VENEMAN. But dollarwise the large urban States will still get most of the total dollars that are being expended. It is just that it doesn't have the expenditure impact on these States because of what they are spending for welfare assistance.

I think that beyond that we have to accept one fact, that this is not tax relief. This is not revenue sharing. What the President is attempting to do with this measure is to structurally reform the welfare system of this country which is in bad shape, and when you are trying to reform something, it doesn't necessarily mean that everybody is going to be treated equally percentagewise.

What we have attempted to do to make this politically palatable is to provide that no State would be required to expend more than 90 percent of what the cost of that program would be, if that present program were to continue as it is now, so that every State does benefit from the proposal as it stands regardless of what its expenditures are.

This is really a key distinction because if we are going to reform the welfare system we cannot look at this as a revenue sharing or tax relief measure.

In answer to your question, "How can you make it more palatable to the States that have assumed a greater responsibility?" and I came from one, California, where we were much higher than many of the other States—you can do such things as participate in supplemental payments in the family assistance program instead of leaving those strictly a State responsibility.

There are ways of doing it.

Mr. CONABLE. Each one carries its cost of course.

Mr. VENEMAN. In each case it costs money.

Mr. CONABLE. And I quite agree that the basic reform should not be damaged or destroyed in order to accomplish symptomatic relief. That isn't going to have any real long-term effect on a system that is not working well.

Mr. VENEMAN. I think this is one of the advantages of the President's entire domestic message of August 8. That is, that it did include revenue sharing, the welfare reform feature and the Manpower Training Act. States I believe would probably be better off under the Manpower Training Act, also. In each of these cases the States assume

additional administrative responsibility, more flexibility with Federal dollars, but the welfare program per se, as you say, does not help very much those States which have assumed a larger responsibility in the past.

I think there is one significant thing here that gets back to one of the points that Mr. Burke raised yesterday when he suggested that this was an open-ended free-flowing pipeline.

The fact is that this plan does more to restrict the free flow of Federal dollars than the old system did, because under the old system no matter how high New York or California raised their AFDC payments or their aged payments, we would pay half of them.

Now, if they go above the \$90, they pay it, and also, in the adult categories, if they go above, we pay 25 percent. If they go above the \$1,600 for a family of four, they pay it all.

So we have actually really taken away some of the incentive for State legislators to raise the grants, thinking that half the dollars are going to come from the Federal Government.

MR. CONABLE. I wouldn't want my remarks to indicate any disapproval of the concept.

MR. VENEMAN. I recognize that.

MR. CONABLE. We do have what we conceive to be rather pressing welfare problems in New York State. I certainly intend to keep an open mind about what can be done about it. I simply wanted to raise the question of how, if Congress wishes to go beyond this program, we could find ways of channelling money most effectively in the interests of a sound, long-term system into areas where the political pressures may work sometimes unfortunately against this reform.

MR. VENEMAN. I have met, Mr. Conable, with representatives of your legislative bodies in New York and also the Welfare Administration, both the city and the State's administrations, and I certainly recognize this.

MR. CONABLE. I expect you have heard from my Governor, also.

MR. VENEMAN. Yes. Mr. Patricelli, do you want to add to that?

MR. PATRICELLI. I think the Secretary covered most of the points, but there is one thing that I think has not come out in the hearings much to date: Why did we elect to have this two-tier system in the family program rather than the kind of matching program we have now in AFDC?

I think if the committee will reflect on where we are with AFDC matching you will see that the present formula has not been able to induce the low benefit States to raise their benefits. Even though under AFDC the Federal Government pays five-sixths of the monthly payment per person, we still have several States paying very low benefits around the country.

At the other end of the scale the States are permitted to spend 50-cent dollars to raise their benefits without limitation.

The Congressman yesterday talked about a raid on the Federal Treasury. The present system is an open-ended invitation to raids on the Federal Treasury because there is no limitation on benefit levels which the high benefit States can aspire to.

Hence, one of the purposes of constructing a system whereby the Federal Government lays down a floor 100 percent financed by the Federal Government, and the States supplement, was to divide their

responsibilities. This way we can be assured that the floor will be raised and at the same time are telling the States, "If you wish to raise benefit levels, you must consider it carefully because that will be financed out of State funds."

Mr. CONABLE. Thank you very much.

That is all, Mr. Chairman.

Mr. BURKE. Mr. Gibbons.

Mr. GIBBONS. Thank you, Mr. Chairman.

As I understand your bill, what you are doing is you are going to abolish the AFDC program, is that correct?

Mr. VENEMAN. We would replace it with the family assistance program.

Mr. GIBBONS. How long after this bill becomes law will it take to abolish one and put the other one in?

Mr. VENEMAN. The change would be made upon the effective date

Mr. GIBBONS. You mean you can set up all the administrative machinery and go through all the rest of this in a month's time?

Mr. VENEMAN. We built some leadtime into the bill; it is to go into effect in January following the fiscal year in which it is adopted

Mr. GIBBONS. So really what you are aiming for—

Mr. VENEMAN. The minimum is 6 months' leadtime.

Mr. GIBBONS. Is that you are talking about January 1971 when you would abolish the AFDC program and put this in?

Mr. VENEMAN. If the measure were passed by Congress before June 30, 1970, it would become effective January 1971.

Mr. GIBBONS. If it is adopted after June 30, 1970, it wouldn't go into effect until January 1972?

Mr. VENEMAN. January 1972.

Mr. GIBBONS. All right.

As I understand your bill, the sick and the blind and the disabled would essentially be treated like they already are?

Mr. VENEMAN. With a different matching formula, correct.

Mr. GIBBONS. A slightly different matching formula.

Mr. VENEMAN. And with a national floor and with some national standards on eligibility and upon resource requirements.

Mr. GIBBONS. How much additional Federal money are you putting into the blind and the aged sick?

Mr. VENEMAN. Approximately \$400 million.

Mr. GIBBONS. Just \$400 million.

Then your change in money between family assistance and AFDC is essentially how much money?

Mr. VENEMAN. We anticipate that in the first full fiscal year that it will range somewhere between \$3 billion and \$3.5 billion for the whole family assistance plan.

Of that amount, I think about \$300 million would go to the existing AFDC caseload as an increase. The balance, the \$2.7 billion to \$3.2 billion, would be additional funds that would be necessary to cover the working poor and the work incentive aspects.

Mr. GIBBONS. AFDC amounts to how much now, about \$300 million?

Mr. VENEMAN. Now. What I meant was that if the bill went into effect, assuming you had the same caseload and same eligibility requirements for AFDC, this program would add about \$300 million total on a full year basis.

Mr. GIBBONS. Just essentially how does family assistance differ from AFDC? I know we have a lot of AFDC programs now. Under title 5 of the OEO program in 1965 many areas, in fact I think my State had a program that was very similar to what we are talking about here now, of training male and female heads of families, giving them additional assistance.

Mr. VENEMAN. I think title 5 that you are referring to was the old community work and training, which was replaced by the WIN program.

Mr. GIBBONS. By the what?

Mr. VENEMAN. By the work incentive program.

Mr. GIBBONS. You know you change names. I am not criticizing you, but you change names so fast that I cannot keep up with them. I can kind of keep up with where they are in what act. The work incentive program.

Mr. WEBER. That was in the Economic Opportunity Act.

Mr. GIBBONS. Yes, I know title 5 I am talking about of the EOA. It is now work incentive, but what was it before that?

Mr. VENEMAN. I think that was the old community work and training program.

Mr. GIBBONS. How do all these programs really differ?

Mr. VENEMAN. Well, one has replaced the other. As Secretary Shultz indicated in his testimony, this program to a great extent, as far as the work requirements are concerned is building upon the basic concepts that were established in the WIN program.

Mr. GIBBONS. What is the WIN program? Where is the legislative authority for the WIN program?

Mr. VENEMAN. 1967.

Mr. GIBBONS. The Social Security Act.

Mr. ROSOW. The 1967 amendments to the Social Security Act.

Mr. GIBBONS. The Secretary of Labor got a lot of money under title 2 of EOA of the 1967 act. Where is that money going now? What is the name of that program now?

Mr. VENEMAN. I think you have in mind title 1 (b), sir.

Mr. GIBBONS. Right.

Mr. WEBER. The Department of Labor gets on a delegated basis from OEO approximately \$750 million. A large share of that is spent for youth programs, the neighborhood youth corps in school and out of school, and the summer program, Operation Mainstream, which is a program to provide work experience for adults from rural areas.

Mr. GIBBONS. Will you still be carrying on all of those?

Mr. WEBER. Yes, sir.

Mr. GIBBONS. You still will be going to Education and Labor Committee and getting that money and coming here and getting this money?

Mr. WEBER. This money, of course, would be distinguished in the sense that it would be directed toward a particular client group, those who are receiving family assistance benefits.

As in the present WIN amendments, they are directed to those who receive welfare or AFDC.

Mr. GIBBONS. Going now to this flow chart that we had, I direct your attention to the second box there and you have adults working full time. How many million people is that?

Mr. ROSOW. 1.8 million. They are the so-called working poor.

Mr. GIBBONS. In this bill is there any definition of families with children in poverty? Who is going to set the poverty level?

Mr. Rosow. The definition is in terms of the qualification of income to meet the eligibility standards for a payment and the law requires that the family have an income in accordance with these standards. In other words, any family of four that has income higher than \$3,920 a year would qualify for no payments whatsoever. A family with zero income using again, Congressman Gibbons, the example of a family of four would qualify for the full payment of \$1,600. Then there is a table that has been submitted with the testimony, and it is also in the charts that we distributed which is the one that shows how family payments decrease with increased earnings.

Mr. GIBBONS. I know that. Does this act contain that table in it, or is this some power we give to some Secretary to set up a table?

Mr. Rosow. No, the exact payments and the amounts and the way in which they are reduced are all spelled out in the act. They are not a subject of subsequent regulation.

Mr. GIBBONS. So, if somebody wants to change, if inflation comes along, then Congress would have to change that?

Mr. Rosow. That is right. It would require legislative action.

Mr. GIBBONS. So Congress will be in effect defining by legislative act who is poor, is that right?

Mr. Rosow. It will define the Federal floor. It would specify and regulate, mandate that the States maintain their benefit levels in terms of their existing supplement, the second layer so-called as described by Mr. Patricelli earlier.

It will not prohibit the States from increasing their supplement, but it would require future legislative action to change the Federal floor.

Mr. GIBBONS. Is really the only essential difference between AFDC and family assistance that you can keep more of the money that you earn? Is that essentially it?

Mr. Rosow. No, Congressman Gibbons. There are a number of distinctions. One is that there will be national eligibility standards which will eliminate a great amount of the administrative and policing activity, welfare snooping which is indigenous in the present system and which drains off a lot of the effort which could be reallocated to administrative services.

Secondly, it includes the working poor who are presently omitted.

Thirdly, there is a large increase in economic incentives in terms of the so-called disregard of \$60 a month or \$720 a year plus the additional disregard of any child-care services which the mother or family secures as a necessary ingredient to going to work.

An additional feature in this program which is new is that the child-care services will continue after the person goes into employment and insofar as the person remains in employment, at good wages, they will contribute partially in accordance with a scale toward the support of child-care services.

In the present program in WIN, although there is a previous period on transition from training to work for some child care, it characteristically is discontinued after 60 to 90 days, and this causes the mother to revert back to welfare because she can't find a place to support her children when she is away from home.

Mr. GIBBONS. I am worrying about who is really going to administer this program.

On this flow chart a person apparently has to go to the Social Security Office and register. In my town, in somebody's wisdom, they just moved the Social Security Office where, unless you have a friend or a lot of cab money, you can't possibly reach it because there is no public transportation.

So the poor people have to go there and register.

Mr. VENEMAN. Not necessarily. The measure provides the responsibilities can be contracted either way. Social security can contract it out to the State or it can go the other way.

Presumably, you wouldn't have the entire community that would qualify report to one facility.

Mr. GIBBONS. Social Security is going to establish some kind of out-reach program, is that it?

Mr. VENEMAN. Well, there are various ways of administering a program of this nature. You can set up an eligibility office in the places that are providing the social services. There are various ways of doing it. I am not too concerned about it.

Mr. GIBBONS. I will tell you I am concerned about it. I can give you an example.

One time I was conducting a hearing in Salt Lake City, and I was then a sort of subcommittee chairman. I called all the Federal agencies together in that area and quasi-Federal agencies, and I had to introduce them to each other. They were all trying to administer the programs for the poor. Their offices were three blocks apart, and the people administering them didn't know each other. That is what worries me

Social security is apparently going to do the initial registration here.

This is not going to be the State welfare doing it. This is going to be the social security.

Mr. VENEMAN. Social security, the way it is administered now, would have the initial responsibility.

Mr. GIBBONS. What about the State welfare agency? Are we going to cut them out?

Mr. VENEMAN. No, you would still have a degree of administration by the State agency. You still have the need to provide the services to the recipients. This administration would remain with the States.

Mr. BALL. We would expect that in the family assistance program, probably the usual pattern in most States would be that taking the initial application and the eligibility determination would be done by social security. I agree with you that we would have to have more social security offices. They would have to be moved to where the people covered by this plan are. As a matter of fact, even as far as the existing social security program is concerned, in the large cities in the last couple of years we have moved more and more—instead of having one large office—toward having several storefront-type offices scattered around in the city in places where they are convenient to the population, and we would need to do more of that under this plan.

Mr. GIBBONS. I represent the 49th largest city in the United States, and you have an office that is so far removed that, as I say, unless you have about \$1.50 cab fare, you are never going to get there.

Mr. BALL. I don't think that is at all desirable for the existing program, and I will be glad to look at it.

Mr. GIBBONS. I didn't think so either.

Mr. BURKE. Could we suspend now because the second bells have rung.

Mr. GIBBONS. I will be glad to, Mr. Chairman.

Mr. BURKE. I think you will have another chance to question next week.

Mr. GIBBONS. When will this set of witnesses be here again, Mr. Chairman?

Mr. BURKE. Tuesday.

Mr. GIBBONS. I have a lot more questions, Mr. Chairman, but unfortunately I can't be here until Tuesday afternoon.

Mr. BURKE. I will inform the chairman that you were asking questions.

Mr. GIBBONS. Thank you.

Mr. CORMAN. Mr. Chairman, may I ask one question? I won't be here next week.

I want to ask it because there was a great deal of discussion a while ago about the kind of jobs people would be required to take. I want to know what the present qualification is regarding women taking jobs as domestics?

Mr. ROSOW. The question was whether women would be required to take work as domestics?

Mr. CORMAN. Yes.

Mr. ROSOW. Under the present WIN experience, the highest proportion of occupations to which women have been referred have been clerical and retail sales. However, I don't think we could rule out the possibility that there will be communities in which women with limited skills might be referred by the local office to that type of employment.

Mr. CORMAN. I would like to suggest to you that the prevailing daily wage for domestics in Mississippi is \$4, and I would like to know for the record whether or not a woman would be required to take that kind of a job.

Mr. ROSOW. That of course is not the objective of this program.

Mr. CORMAN. I understand. I just want you to tell me whether she would be required to take that job or not.

Mr. BURKE. Could the Chair interrupt at that point? Would you submit an answer to that for the record? I think we will have to adjourn to make this rollcall.

(The information requested follows:)

We do not contemplate referral to domestic daywork jobs under the circumstances described.

Mr. VENEMAN. Mr. Chairman, permit me just to express my appreciation to the committee.

I have found it most enlightening in the last few days and look forward to the return trip.

Mr. BURKE. We are very grateful for your appearance here, and we want to thank you and particularly Mr. Ball and Bob Myers who have been particularly helpful.

The committee stands adjourned, to meet at 10 a.m., on Tuesday, October 21, when we will again have the privilege of listening to Secretary Finch who will be here for further questioning.

The committee stands adjourned.

(Whereupon, at 4:05 p.m., the committee adjourned, to reconvene at 10 a.m., Tuesday, October 21, 1969.)



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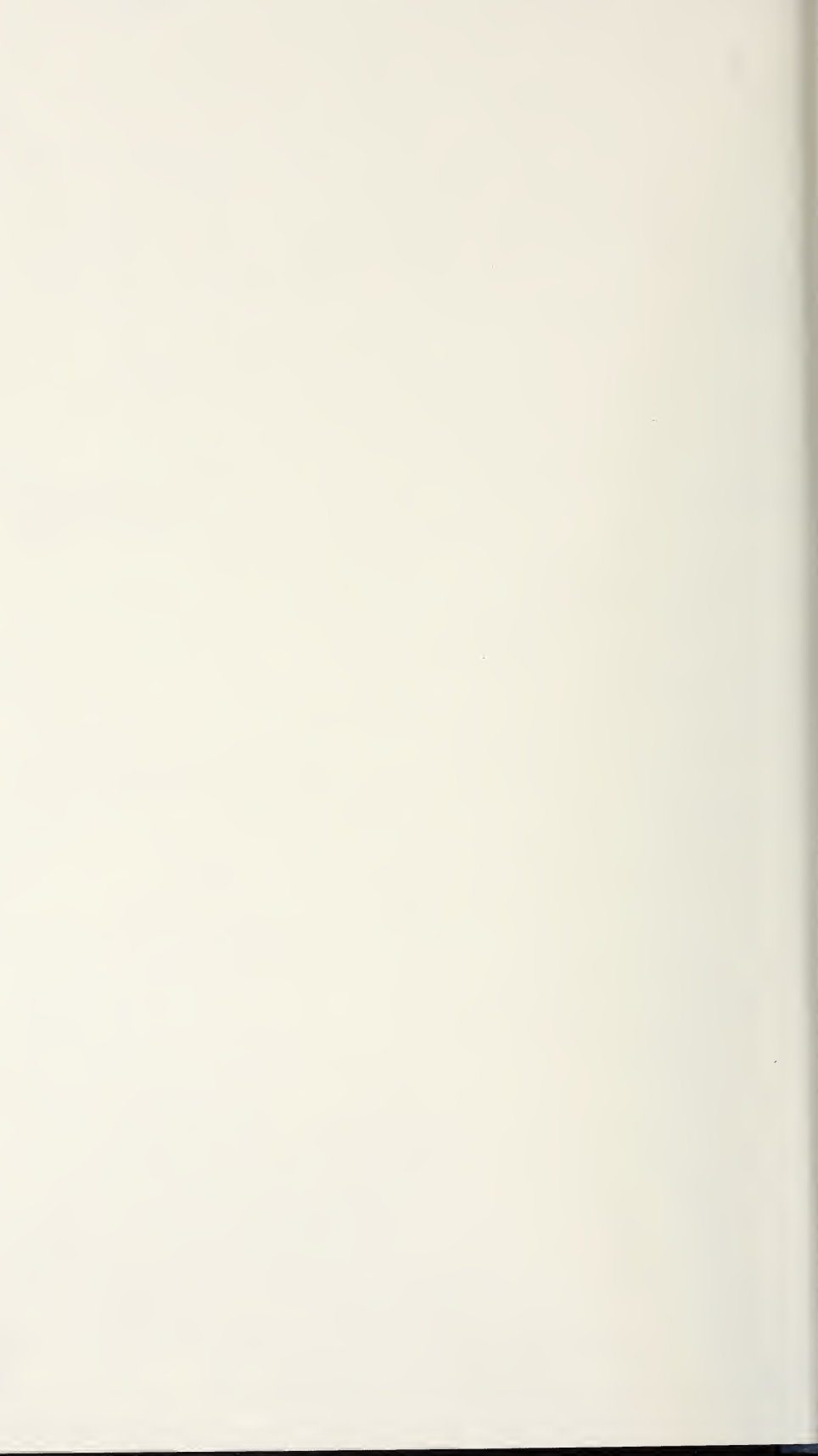
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